

GCP
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GCP Asset Backed Income Fund Limited
Annual report and financial statements
for the year ended 31 December 2023

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About the Company

GCP Asset Backed Income Fund Limited (the “Company”) is a listed investment company which predominantly invests in UK asset backed loans.

The Company seeks to provide shareholders with attractive risk-adjusted returns through regular, growing distributions and modest capital appreciation over the long term.

The Group is currently invested in a diversified portfolio of asset backed loans across the social infrastructure, property, energy and infrastructure, and asset finance sectors, which are located predominantly in the UK.

The Company is a closed-ended investment company incorporated in Jersey. It has a premium listing on the Official List of the FCA with its shares admitted to trading on the Premium Segment of the Main Market of the LSE since 23 October 2015.

At 31 December 2023, it had a market capitalisation of £279.2 million. The Company is a constituent of the FTSE All-Share Index.

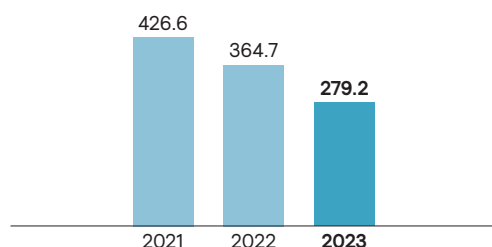
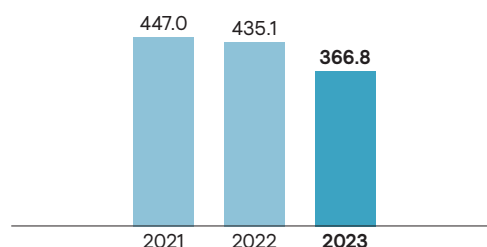


www.gcpassetbacked.com

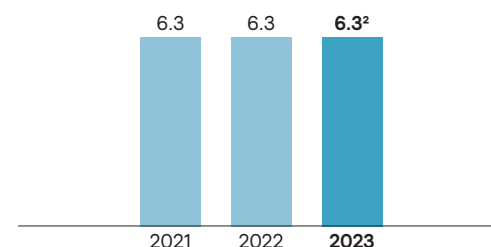


At a glance – 31 December 2023

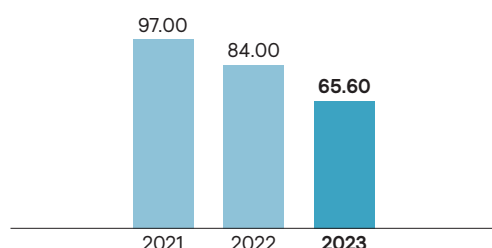
Market capitalisation £m

Value of investments¹ £m

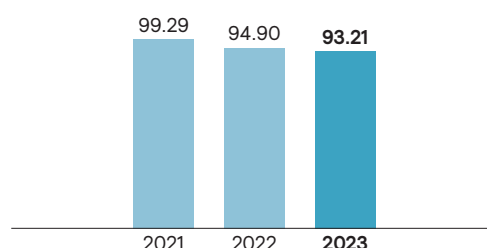
Dividends for the year p



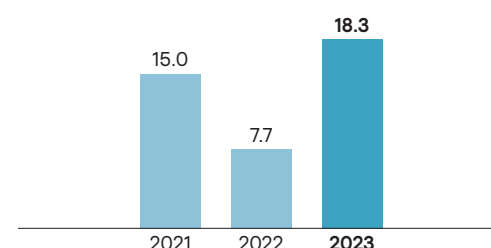
Ordinary share price p



NAV per ordinary share p



Profit for the year £m



Highlights for the year

- Dividends of 6.3² pence per share declared and paid in respect of the year.
- Total shareholder return³ of -14.1%, total NAV return³ of 5.0% (31 December 2022: -7.3% and 1.9%) and an annualised total shareholder return since IPO³ of 1.1%.
- Profit for the year of £18.3 million (31 December 2022: £7.7 million). The increase predominantly reflects a reduction in valuation losses of the portfolio. Further information on financial performance is included on page 35.
- NAV per ordinary share of 93.21⁴ pence at 31 December 2023, a decrease of 1.8% due to further write-downs to the Co-living group loan and discount rate and fair value adjustments applied to the portfolio by the independent Valuation Agent. Further information is included in the Investment Manager's report on pages 16 to 33.
- Repayment of the Company's £50.0 million RCF in full in December 2023, following the early prepayment of loans.
- New loans of £4.5 million advanced by the Group in the first quarter of the year, with further investments of £28.2 million made to support existing borrowers.
- Exposure to a diversified, partially inflation and/or interest rate-protected portfolio of 42 asset backed loans with a third party valuation of £362.8 million⁵ at 31 December 2023.
- 8.5 million shares repurchased to support the Company's share price, providing NAV accretion of 0.38 pence per share, with 16.4 million shares repurchased since the start of the buyback scheme in March 2020.
- Repayments of £93.5 million, generating repayment fees of £1.2 million.
- On 11 August 2023, the Company announced it had agreed heads of terms with GCP Infra in respect of a proposed combination. Following significant shareholder consultation, discussions ceased. Further information is included in the Chairman's statement on page 4.
- Post year end, in March 2024, the Company announced the results of the Strategic Review, following extensive shareholder consultation. The Board reached the conclusion that shareholder value will be best served by winding down the Company with an Orderly Realisation of its assets and return of capital. Shareholders will be given the opportunity to vote on the discontinuation of the Company at the AGM on 20 May 2024. Further information is included in the Chairman's statement on pages 4 to 6.
- Post year end, the Group received repayments totalling £41.4 million.

1. Includes the valuation of the Subsidiary, refer to note 11 to the financial statements for further information.

2. Total dividends of 6.325 pence include a quarterly dividend of 1.58125 pence per share for the quarter to 31 December 2023, which was declared post year end.

3. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.

4. Does not include a provision for the dividend in respect of the quarter to 31 December 2023, which was declared and paid post year end.

5. Valuation of the portfolio held by the Subsidiary. The Company makes its investments through its wholly owned Subsidiary. Refer to note 1 to the financial statements for further information.

Investment objectives and KPIs




The Company's purpose as a closed-ended investment company is to meet its investment objective, which is to generate attractive risk-adjusted returns through regular, growing distributions and modest capital appreciation over the long term.

 <p>Attractive risk adjusted returns</p> <p>To provide shareholders with returns that are attractive with regard to the level of risk taken.</p>	 <p>Regular, growing distributions</p> <p>To provide shareholders with regular, growing dividend distributions.</p>	 <p>Capital appreciation</p> <p>To achieve modest appreciation in shareholder value over the long term.</p>
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Key performance indicators

<p>The Company has generated an annualised total shareholder return since IPO¹ of 1.1%.</p> <p>-14.1%</p> <p>Total shareholder return¹ for the year 31 December 2022: -7.3%</p> <p>8.7%²</p> <p>Weighted average annualised yield¹ on investment portfolio 31 December 2022: 8.0% (8.3% excl. loans held at net realisable value)</p>	<p>Dividends totalling 6.3⁴ pence per ordinary share were declared for the twelve month period to 31 December 2023.</p> <p>6.3p⁴</p> <p>Dividends in respect of the year 31 December 2022: 6.325p</p> <p>52%</p> <p>Percentage of portfolio with partial inflation and/or interest rate protection 31 December 2022: 53%</p>	<p>The Company's shares were trading at 65.60 pence per share at the year end.</p> <p>65.60p</p> <p>Share price at 31 December 2023 31 December 2022: 84.00p</p> <p>29.6%</p> <p>Discount¹ to NAV at 31 December 2023 31 December 2022: 11.5% discount¹</p>
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Sustainability indicators

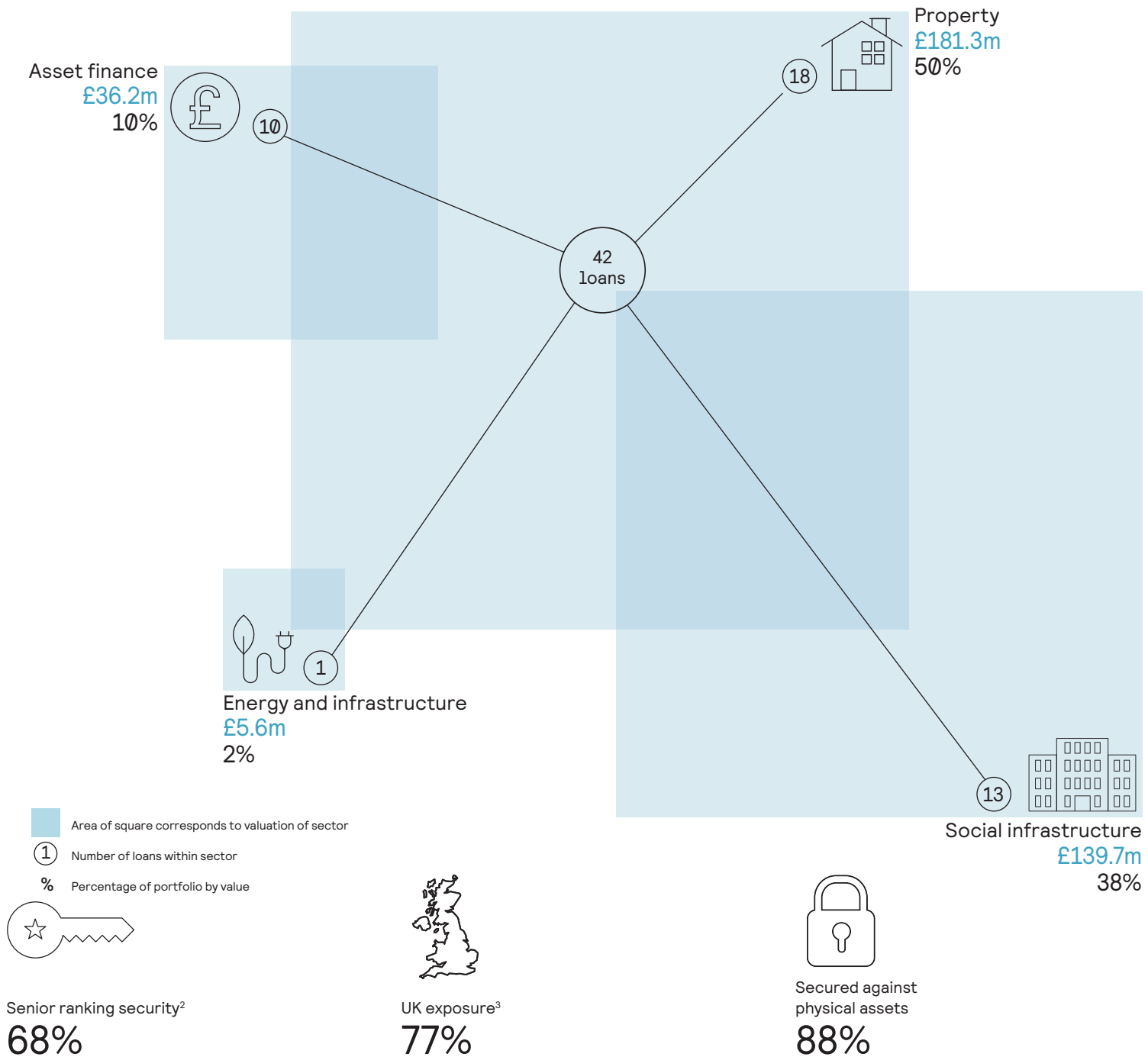
 <p>Portfolio by value with an EPC rating of B or above 46%³ 2022: 44%</p>	 <p>Portfolio by value which aligns with the UN SDGs⁵ 25%⁶ 2022: 30%</p>	 <p>Gender diversity of the Board of Directors of the Company 50:50 2022: 50:50</p>
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Further information on Company performance can be found on pages 34 to 37.

- Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.
- Including the loans held at net realisable value. Excluding these loans, the weighted average annualised yield¹ remains at 8.7%.
- Percentage of property and social infrastructure sector at 30 September 2023 with an EPC rating of B or above. 7% rated C, 6% rated D, E and F, with the remainder either not applicable or not found.
- Total dividends of 6.325 pence includes a quarterly dividend of 1.58125 pence per share for the quarter to 31 December 2023, which was declared post year end.
- Percentage of portfolio at 31 December 2023 measured in alignment with the UN SDGs: housing for vulnerable adults, care for the elderly and urban regeneration.
- Reduction compared to the prior year relates to the repayment of the nursery loans in December 2023.

Portfolio at a glance

Portfolio of 42 asset backed loans¹ with an average maturity of five years which are partially inflation and/or interest rate protected. The loans fall within the following sectors and are predominantly secured against physical assets and contracted cash flows in the UK.



1. Refer to the portfolio information report on pages 140 and 141.
 2. The classification of the Company's senior or subordinated security is determined from the terms of the facility agreement with each borrower. However, in some cases, the borrower may utilise the Company's senior ranking loan for the purpose of lending to a third party, and for which on a look-through basis, the Company's reported senior security is subordinated. In such cases, the independent Valuation Agent fair values the Company's loan as a subordinated loan.
 3. The Group has exposure to overseas assets located in Europe, the US and Australia at the year end.

Chairman's statement

I am pleased to present the Company's annual report for the year ended 31 December 2023.



Alex Ohlsson
Chairman

Introduction

Against a wider market background of economic uncertainty and volatility, the Company continues to offer investors exposure to a diversified portfolio of secured loans.

The Company has experienced significant challenges throughout the year, primarily due to prevailing market factors. At the time of writing, the Company's shares are trading at a c.25% discount¹ to the 31 March 2024 NAV. Throughout 2023, credit markets underwent rapid and significant changes, driven by increases in central bank rates in an effort to curb inflation. The Board recognises this has made the Company's return profile appear less attractive than other mainstream sources of income available to investors, prompting concerns over the wider economic impact on borrower liquidity and asset valuations. This, along with other market factors, has caused the Company's shares to trade at a persistent discount¹ to NAV over the year.

Proposed combination

After careful consideration of several strategic opportunities, on 11 August 2023, the Company announced it had agreed heads of terms with GCP Infra in respect of a proposed combination of the Company with GCP Infra (the "Scheme"). The Company underwent an extensive period of shareholder consultation prior to incurring any material expenditure in progressing the Scheme, the cost of which was borne by the Investment Manager, rather than the Company. Whilst a number of shareholders expressed support for the Scheme, a significant minority of shareholders were not supportive. As a result of that feedback, on 18 September 2023, the Board announced it had notified GCP Infra of its intention to cease discussions relating to the Scheme.

Strategic review

Following the cessation of the Scheme, the Company announced on 13 December 2023 that the Board would commence a Strategic Review to consider how it may best deliver value to shareholders (the "Strategic Review").

As part of the Strategic Review, the Board actively engaged with shareholders to obtain feedback and inform its decision-making process. The Board specifically sought shareholders' views in respect of:

- i) a wind-down of the Company with an orderly realisation of its assets (the "Orderly Realisation");
- ii) the potential continuation of the Company in its present form in accordance with its current investment policy delivered by the Investment Manager, paired with a partial capital return ("Continuation"); and
- iii) a potential sale of the entire issued share capital of the Company and/or its assets (a "Potential Sale").

The engagement involved a series of shareholder meetings undertaken by myself and supported by the Company's Broker. I would like to thank all those shareholders who participated in this process.

As a consequence, feedback on the future strategic direction of the Company was provided to the Board by shareholders representing a majority of the total voting rights in the Company. Whilst differing views were expressed by shareholders on the future of the Company, a majority indicated a preference for an Orderly Realisation or Potential Sale of the Company.

1. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.

Orderly Realisation

Shareholders will be given the opportunity to vote on the discontinuation of the Company at the AGM on 20 May 2024 which will be presented as an ordinary resolution requiring the majority of those voting to vote in favour of the discontinuation in order for the resolution to pass. In addition, subject to the approval by shareholders of the Discontinuation Vote, the Board intends to convene an EGM to be held immediately after the 2024 AGM at which it will seek shareholder approval for certain resolutions required to facilitate the Orderly Realisation (the "Proposals").

Subject to the Proposals being approved by shareholders, it is the Board's expectation that the Company will make a capital distribution of at least £55.0 million as soon as is reasonably practicable following the conclusion of the 2024 EGM. The Board will also seek to expedite capital distributions when practicable thereafter.

The Orderly Realisation will not result in a liquidation of the Company in the immediate future and the Board will seek to implement the Orderly Realisation in a manner that maximises value for shareholders.

Amounts realised are expected to come from contractual repayments by borrowers to the Company as loans mature in accordance with their contractual terms, and from the disposal of portfolio assets, including longer-dated loans.

Should the Proposals be approved by shareholders, it is the Board's intention to maintain the Company's existing level of dividend of 6.235 pence per annum¹ whilst the Company remains substantially invested, for as long as practicable.

The Company currently intends to publish a circular (the "Orderly Realisation Circular") with further information, including an updated portfolio repayment profile at 31 March 2024, which will be published on 2 May 2024.

Continuation

In the event that the Discontinuation Vote proposed at the AGM does not pass, the Company will continue as presently constituted, with the same investment objective: to generate attractive risk-adjusted returns through regular, growing distributions and modest capital appreciation over the long term, alongside a partial capital return.

The Company's current investment objective is designed to provide investment performance that is not correlated with wider markets. This has been challenged throughout a period of significant market volatility: the exit of the UK from the European Union; the Covid-19 pandemic; the onset and continuation of war in Europe and associated impact on energy costs; and more recently, a period of higher inflation and interest rates. Whilst the majority of the Company's investment portfolio has demonstrated resilience to wider market volatility, the performance of some loans have been impacted. Key learnings have been taken from these loans which will help support the successful evolution of the Company's investment approach in a continuation scenario. Refer to pages 20 and 21 for more information on problem and watchlist loans.

1. This is a target only and does not constitute a profit forecast.

Chairman's statement continued

Strategic review continued

Potential Sale

The Board is exploring all options to maximise shareholder value.

On 6 October 2023, the Board received a non-binding proposal from a US-listed investment company to acquire the entire issued share capital of the Company. The proposal offered 68 pence per share in cash or an alternative where shareholders could receive US-listed shares in the possible offeror, equating to 76 pence per share. The Board unanimously rejected this proposal. On 27 November 2023, a second conditional and non-binding proposal was received, offering 72 pence per share in cash or 78 pence per share in a share alternative. The Board agreed to provide access to confirmatory due diligence. However, before accessing such information, on 11 December 2023, the possible offeror notified the Company of its withdrawal of the proposal.

Any parties interested in a Potential Sale should contact the Company's Broker for further information.

Investments

At the year end, the Group held 42 loans with a fair valuation of £362.8 million and principal balance of £374.6 million invested across the property, social infrastructure, energy and asset finance sectors. A breakdown of the portfolio can be found on page 28.

The Group advanced limited loans of £4.5 million to new borrowers in the first quarter of the year and £28.2 million to support existing borrowers, including planned capitalised interest of £7.7 million during the year. Following the cessation of discussions relating to the Scheme on 18 September 2023, the Board restricted the Company's investment activity, such that no investments would be made ahead of the 2024 AGM, with any material amendments or extensions to existing borrowers requiring the Board's consent.

The weighted average annualised yield¹ generated by the portfolio increased to 8.7%² in the year (from 8.0% at 31 December 2022). This increase was driven by index-linkage across 52% of the investment portfolio and changes in the composition of the portfolio, principally due to maturity repayments.

Since the Company's inception, the annualised loss ratio³ stands at 0.50%. Of this, 89% is attributable to impairments on the Co-living group loan, for which an update is provided on page 20.

The weighted average discount rate¹ used to value the Group's investment portfolio increased to 10.5% in the year, an increase of 2.1% from the previous year. This excludes the loans held at net realisable value. This increase was predominantly due to broad sector-based movements. These revaluations contributed to reductions in net assets of £6.4 million (or 1.49 pence per share) during the year.

The Board and Investment Manager have continued to focus on watchlist and problem loans during the year. At 31 December 2023, there were eight loans categorised as either watchlist or problem loans, together representing 14.9% of NAV. Refer to pages 20 and 21 for further details.

The Group has exposure to real estate markets across the portfolio. At 31 December 2023, 88% of the Group's loans by portfolio value were exposed to property, including loans exposed to property in sectors with social infrastructure, such as student accommodation, social housing and care homes. The portfolio includes direct exposure to seven projects currently under construction, which represent 18% of the portfolio value. A further 5% is exposed to construction projects either through one land development project or three borrowers who are development finance companies. The portfolio includes subordinated loans which are subordinate to the borrowers' senior debt. Such loans represented less than one-third of the portfolio value³.

Further information on the contracted cash repayment profile of the investment portfolio and illustrative repayments is included in the Investment Manager's report on page 22.

1. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.
2. Including the loans held at net realisable value. Excluding these loans, the weighted average annualised yield¹ remains at 8.7%.
3. The classification of the Company's senior or subordinated security is determined from the terms of the facility agreement with each borrower. However, in some cases, the borrower may utilise the Company's senior ranking loan for the purpose of lending to a third party, and for which on a look-through basis, the Company's reported senior security is subordinated. In such cases, the independent Valuation Agent fair values the Company's loan as a subordinated loan.

Financial performance

In the year, the Company's portfolio generated interest income of £31.7 million, offset by net losses on financial assets of £7.4 million and gains on derivatives and other income of £2.0 million. This resulted in total income of £26.3 million. The total profit for the year was £18.3 million after expenses and finance costs of £8.0 million. This was a significant increase from the previous year's profit of £7.7 million, primarily due to a reduction in write-downs recognised in the prior year. Earnings of 4.27 pence per share on an IFRS Accounting Standards basis were generated. Adjusted EPS¹ was 7.02 pence per share, compared to the dividend of 6.325² pence for the year.

NAV and share price

The Company's share price has continued to trade at a discount¹ to NAV throughout the year, with an average discount¹ of 29.6%. At 31 December 2023, the share price was 65.60 pence, representing a discount¹ to NAV of 29.6%. Since the Company's IPO in 2015, its shares have traded at an average discount¹ of 4.2%.

Total shareholder return¹ for the year was -14.1% (31 December 2022: -7.3%), driven by a reduction in the Company's share price. By contrast, total NAV return¹ for the year was 5.0% (31 December 2022: 1.9%).

At the year end, the net assets of the Company were £396.7 million. The NAV per share decreased from 94.90 pence at 31 December 2022 to 93.21 pence at 31 December 2023.

The Board and Investment Manager continued to engage with shareholders over the year, releasing detailed portfolio information in shareholder communications, hosting regular webinars and meeting with shareholders on an individual basis throughout the year to discuss the Scheme and the Strategic Review.

Cash resources, dividend policy and share buybacks

Over the first half of 2023, 8.5 million shares were repurchased, returning £6.5 million of cash to shareholders. In total, 16.4 million shares have been repurchased since the start of the buyback programme in March 2020. No buybacks occurred in the second half of the year while work was undertaken on the Scheme and the subsequent Strategic Review.

The Company paid 6.325² pence per share in interim dividends, in line with the 6.325 pence per share paid in interim dividends for 2022. The dividend was 0.68 times covered by an EPS of 4.27 pence and 1.1 times covered by an adjusted EPS¹ of 7.02 pence.

Should the Proposals set out on page 5 be approved by shareholders, it is the Board's intention to maintain the Company's existing dividend of 6.325 pence per annum whilst the Company remains substantially invested, for as long as is practicable³.

Financing

The Company has an RCF with RBSI for the amount of £50.0 million. At the year end, the RCF had been fully repaid. Utilisation over the year averaged 71%, representing an average loan to NAV of 9.0%, which is a modest level of gearing. During the period of utilisation, the Company demonstrated coverage on all financial covenants and compliance with other covenants. The RCF has a maturity date of August 2024, with a £nil balance at the date of the report.

Responsible investment

The Board has continued to work closely with the Investment Manager to progress the Company's stated ESG aims and identify ways the Company can further embed the Principles for Responsible Investment in its operations. This year, the Company updated its ESG policy, which can be found on the Company's website.

Of particular note has been the data collection project undertaken by the Investment Manager to report material ESG metrics from the underlying portfolio. This is the second year the exercise has been carried out and has resulted in better data coverage and increased transparency in the Company's reporting.

The Investment Manager also increased its PRI assessment score, scoring an average of 76 points out of 100 and four out of five stars for each category, improving its overall score by one star. The PRI assessment report, which is available on the Investment Manager's website, outlines how signatories' responsible investment practices compare year-on-year, across asset classes, and with peers at a local and global level.

A number of ESG workstreams were placed on hold over the second half of the year while work was carried out on the Scheme and the Strategic Review. More information on ESG can be found in the sustainability section of this report on pages 38 to 57, which includes a description under the four TCFD pillars of governance, strategy, risk management, and metrics and targets.

1. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.
2. Total dividends of 6.325 pence per share includes a quarterly dividend of 1.58125 pence per share for the quarter to 31 December 2023, which was declared post year end.
3. This is a target only and does not constitute a profit forecast.

Chairman's statement continued

Investment Manager

In July 2023, Joanne Fisk, the co-fund manager of the Company, resigned from the Investment Manager. Furthermore, in December 2023, Saira Johnston, the Chief Financial Officer of the Investment Manager and an investment committee member, resigned from the Investment Manager. Ms Johnston's role was filled by internal appointments within the Investment Manager who are known to the Company. The Board would like to thank Ms Fisk and Ms Johnston for their contributions to the Company and wish them the best for the future.

In October 2023, Anthony Curl joined the Investment Manager as Chief Investment Officer to support Philip Kent who continues as lead manager of the Company. The Investment Manager has highlighted Mr Curl's long and successful track record in the long income and credit sectors, joining the firm from Alpha Real Capital, where he was co-head of long income, managing several investment teams for strategies including social infrastructure and commercial ground rents.

Post year end, the Investment Manager announced the appointment of Albane Poulin as Head of Private Credit, a new role at the Investment Manager. She joined in February 2024 and brings a wealth of private credit origination and management experience, most recently as Head of European Private Placements at abrdn. Ms Poulin supports the ongoing provision of services to the Company, alongside Philip Kent, Anthony Curl, Luther Ward-Faint and the wider team.

It is the Board's current intention, subject to the outcome of the Discontinuation Vote and agreement of revised terms, that the Investment Manager is retained to provide investment management services in connection with the Orderly Realisation. The Board considers the Investment Manager to be best placed to provide such services, taking into account its knowledge and experience of the Company's investment portfolio.

To this effect, the Board has commenced discussions with the Investment Manager in respect of proposals for the provision of investment management services during the Orderly Realisation under revised terms that seek to incentivise the Investment Manager to achieve the objective of maximising shareholder return in a timely manner. In due course, the Investment Manager will engage with shareholders to present its plan for the Orderly Realisation.

Board changes

In light of the outcome of the Strategic Review, Joanna Dentskevich and Colin Huelin, who each have served on the Board for almost nine years, do not intend to seek re-election as non-executive Directors of the Company at the 2024 AGM.

Mrs Dentskevich has served as Senior Independent Director and as chair of the Risk committee. The Board has benefited from Mrs Dentskevich's significant experience in financial markets, particularly in the area of risk, since the Company's inception. Her sound judgement and wise counsel have regularly contributed to the Board's decision-making process. Mr Huelin has served as chair of the Audit committee since the Company's IPO nearly nine years ago. He has brought considerable financial experience to the Company. His commitment to his role and his scrupulous analysis of all matters put before him have served the Company well.

The Board and the Investment Manager would like to extend their thanks to Mrs Dentskevich and Mr Huelin for their significant contribution to the Company throughout their terms of office. We wish them well in their future endeavours.

The Board is currently undertaking a recruitment process and seeking to appoint a new non-executive Director at the 2024 AGM. The Board will have due regard for corporate governance best practice through an independent process, taking into account relevant experience, Board diversity and the regulatory requirements applicable to the Company. Further information is provided in the Remuneration and Nomination committee report on pages 85 to 87.

The appointment of the new Director will be subject to the approval of the JFSC and shareholder approval at the 2024 AGM. Following appointment of the new Director, the Board will comprise of three non-executive Directors.

The Board will review the composition of its committees once the new Director is appointed and make appropriate changes as required. Further information will be included in the AGM Circular which will be sent to shareholders on 2 May 2024.

Governance and compliance

The Board recognises the importance of a strong corporate governance culture and continues to maintain principles of good corporate governance as set out in the AIC Code. Refer to page 80 for further information.

Principal risks and uncertainties

Following a detailed review of the principal risks and uncertainties described in last year's annual report and those reported in the Company's 2023 half-yearly report, the Board have concluded there exists a new principal uncertainty relating to the Discontinuation Vote, in addition to the existing geopolitical uncertainty relating to the invasion of Ukraine and the Israel-Hamas war.

Furthermore, as a result of the cessation of the Scheme and the outcome of the Strategic Review, the Board has identified two new principal risks and a previous principal risk that is no longer applicable. Further information is provided in the risk section on pages 68 to 71.

The Board and Investment Manager have carried out stress and viability testing on the Company to assess the impact of these risks. Further details on stress and viability testing and the risks and uncertainties facing the Company are set out on pages 66 to 73.

Market overview and outlook

Over the twelve month period to 31 December 2023, the yield on five year gilts decreased by 0.2%, with the yield increasing by 2.6% in the two year period to 31 December 2023. The dramatic and rapid change in the cost of borrowing has been driven by increases in central bank rates, which are 5.25% in the UK at the date of the report. Higher rates are an attempt to reduce headline inflation, with year-on-year CPI peaking at 11.1% in October 2022, reducing to 4.0% in December 2023. Furthermore, the UK slipped into a technical recession in the second half of 2023, prompting concerns about the slow growth rate of the economy.

The Company, and the wider alternative investment universe in which it sits, has historically provided investors with an attractive alternative to fixed income during a period of enduring low interest rates. The increase in yields available from traditional income sources has been accompanied by a flight of capital away from alternative assets into more traditional fixed income producing assets. This has, in turn, reduced demand for the Company's shares and contributed to the prevailing and persistent discount¹ to NAV at which the Company's shares have traded over the course of the past 18 months.

As noted on page 4, whilst differing views have been expressed by shareholders on the future of the Company, a majority indicated a preference for an Orderly Realisation or a Potential Sale. Accordingly, the Board intends to recommend that shareholders vote for discontinuation of the Company in its present form at the AGM in May 2024.

The Board thanks shareholders for the constructive feedback provided as part of the shareholder engagement process. The feedback has been invaluable in informing the Board's decision-making process and in formulating proposals for an Orderly Realisation of the Company.

Alex Ohlsson

Chairman

24 April 2024

1. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.

Strategic report

What's in this section

Strategic overview

Find out more on pages 12 and 13

Business model

Find out more on pages 14 and 15

Investment Manager's report

Find out more on pages 16 to 33

Financial review of the year

Find out more on pages 34 to 37

Sustainability

Find out more on pages 38 to 57

Stakeholders

Find out more on pages 58 to 65

Risk management

Find out more on pages 66 to 73

Strategic overview

The Company's investment objective is to generate attractive risk-adjusted returns through regular, growing distributions and modest capital appreciation over the long term.



Investment objective

The Company's investment objective is to generate attractive risk-adjusted returns through regular, growing distributions and modest capital appreciation over the long term.

Investment policy

The Company seeks to meet its investment objective through a diversified portfolio of investments which are secured against, or comprise, contracted, predictable medium to long-term cash flows and/or physical assets. The Company's investments will predominantly be in the form of medium to long-term fixed or floating rate loans which are secured against cash flows and/or physical assets which are predominantly UK based.

The Company's investments will typically be unquoted and will include, but not be limited to, senior loans, subordinated loans, mezzanine loans, bridge loans and other debt instruments. The Company may also make limited investments in equities, equity-related derivative instruments such as warrants, controlling equity positions (directly or indirectly) and/or directly in physical assets.

The Company will at all times invest and manage its assets in a manner which is consistent with the objective of spreading investment risk.

Investment restrictions

The Company observes the following investment restrictions:

- any single investment, or any investments with a single counterparty, will be limited to 20% of the gross assets of the Company;
- investments in equities and equity-related derivative instruments, including controlling equity positions and any direct investments in physical assets, will be limited to 10% of the gross assets of the Company;
- no more than 30% of the gross assets of the Company will be used to finance investments outside the UK; and
- the Company will not invest in other listed closed-ended funds.

The limits set out above shall all apply at the time of investment, as appropriate.

Structure of investments

The Company typically makes investments directly or indirectly through one or more underlying special purpose vehicles which will usually be wholly owned by the Company and over which the Company will exercise control as regards investment decisions. The Company may from time to time invest through vehicles which are

not wholly owned by it. In such circumstances, the Company will seek to secure controlling rights over such vehicles through shareholder agreements or other legal arrangements.

In the event of a breach of the investment restrictions set out above, the Investment Manager shall inform the Directors upon becoming aware of the same and if the Directors consider the breach to be material, notification will be made to a regulatory information service.

No material change will be made to the investment policy without the approval of shareholders by ordinary resolution.

The Board intends to convene an EGM to be held immediately after the 2024 AGM at which, subject to the approval by shareholders of the Discontinuation Vote, it will seek shareholder approval for certain resolutions to facilitate the Orderly Realisation, including to change the current investment objective and policy. Further information can be found on page 5.

Non-financial objectives of the Company

The key non-financial objectives of the Company are:

- to maintain strong, long-term and positive working relationships with all stakeholders, including shareholders and borrowers;
- to promote the development of emerging asset backed sectors by developing financial products that match the requirements of these sectors; and
- to operate a long-term, viable business model, which does not detrimentally impact the environment and provides tangible benefits to society.

Key policies**Borrowing and gearing policy**

The Company may, from time to time, use borrowings for investment purposes, to manage its working capital requirements or in order to fund the market purchase of its own shares. Gearing, represented by borrowings, will not exceed 25% of NAV, calculated at the time of borrowing.

Hedging and derivatives

The Company may invest through derivatives for investment purposes and efficient portfolio management. In particular, the Company may engage in interest rate hedging or otherwise seek to mitigate the risk of interest rate changes as part of the Company's efficient portfolio management.

Investments will be denominated primarily in Sterling. However, the Company may make limited investments denominated in currencies other than Sterling, including US Dollars, Euros and Australian Dollars. In the event of the Company making such investments, the Investment Manager will use its judgement, in light of the Company's investment policy, in deciding whether or not to effect any currency hedging in relation to any such investments. In addition, the Company may do so where the Investment Manager considers such hedging to be in the interests of efficient portfolio management and may utilise derivative instruments to seek to achieve this. The Company will not engage in currency trading for speculative purposes.

Any use of derivatives for investment purposes will be made on the basis of the same principles of risk spreading and diversification that apply to the remainder of the Company's investment portfolio and will be subject to the investment restrictions described above.

Dividend policy

The Company pays dividends on a quarterly basis, with dividends typically declared in January, April, July and October and paid in or around February, May, August and November in each financial year.

The Company has the authority to offer a scrip dividend alternative to shareholders. The offer of a scrip dividend alternative was suspended at the Board's discretion, for all 2022 and 2023 dividends, as a result of the discount between the likely scrip dividend reference price and the relevant quarterly NAV per share of the Company. The Board intends to keep the payment of future scrip dividends under review.

Conflicts of interest

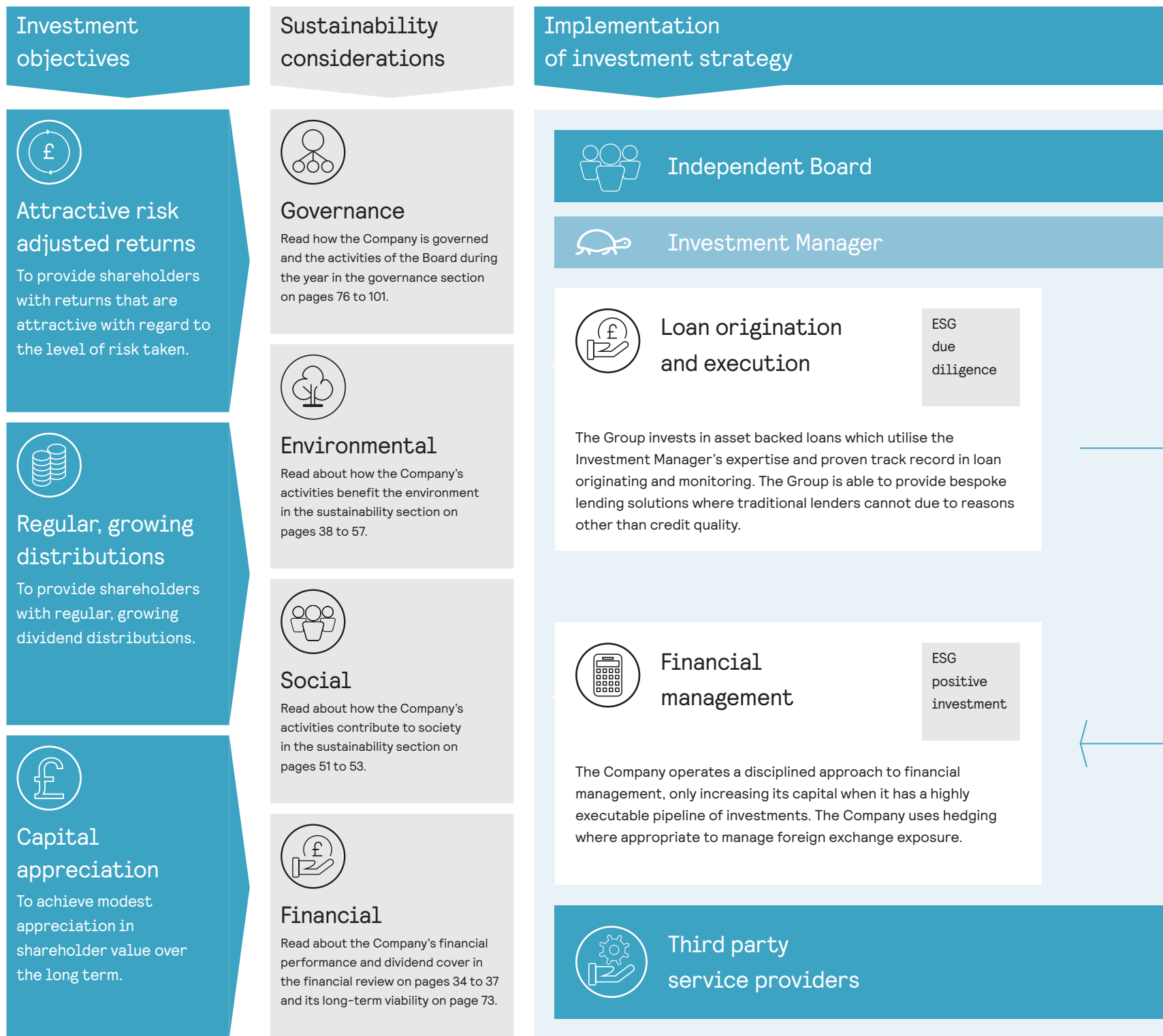
Where there is any overlap for a potential investment with GCP Infra, GCP Infra has a right of first refusal over such investment. GCP Infra has not exercised this right of first refusal since the Company's IPO.

As previously announced, no material amendments or extensions of facilities to existing borrowers will be made ahead of the Discontinuation Vote at the 2024 AGM without the Board's prior consent. A procedure has been put in place between the Board and the Investment Manager to manage this process.

In the event that the Investment Manager or any shareholders, directors, officers or employees of the Investment Manager are directly or indirectly interested in any entity or asset in relation to any investment proposal, the potential investment is presented to the Board for its approval. Further details can be found on page 37.

Business model

The Group's purpose is to invest in a diversified portfolio of asset backed loans to provide regular, growing distributions and modest capital appreciation over the long term.



Strong governance

Read more on pages 76 to 101.



Operational management

ESG data collection

The operations of the Company are delegated to the Investment Manager and are overseen by the Board. The Investment Manager maintains a robust control environment and undergoes an internal controls review from an external audit provider on an annual basis.



Risk management

Assessing climate risk

The Company operates a robust risk management and mitigation process along with active controls monitoring and stress testing procedures. The Investment Manager is appointed as AIFM to the Company and is responsible for the management of risk alongside the Board.

Advisory and administration

Key performance indicators



Annualised total shareholder return since IPO¹ of 1.1%.

-14.1%

Total shareholder return¹ for the year



The Company has maintained its dividend year-on-year.

6.3p²

Dividends in respect of the year



The shares have traded at a discount¹ to NAV throughout the year.

29.6%

Discount¹ to ordinary share NAV at year end

Sustainability indicators



Governance

50:50

Board gender diversity at 31 December 2023



Environmental

46%

Portfolio by value with an EPC rating of B or above^{3,4}



Social

1,320

FTEs at portfolio level at 30 September 2023⁴



Financial

0.68x

Dividend cover (IFRS) at 31 December 2023⁵

1. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.
2. Total dividends of 6.325 pence per share includes quarterly dividend of 1.58125 pence per share for the quarter to 31 December 2023, which was declared post year end.
3. Percentage of property and social infrastructure portfolio at 30 September 2023 with an EPC rating of B or above. 7% rated C, 6% rated D, E and F, with the remainder either not applicable or not found.
4. Twelve month period to 30 September 2023 to facilitate inclusion in the annual report.
5. The dividend of 6.325 pence per share is fully covered by an adjusted EPS¹ of 7.02 pence per share.

Investment Manager's report

The Company's target market remains underserved by mainstream lenders and therefore presents an opportunity to generate attractive risk-adjusted returns.



Asset backed lending

Asset backed lending is an approach to structuring investments used to fund infrastructure, industrial or commercial projects and asset financing. Asset backed lending relies on the following to create security against which investments can be provided:

- the intrinsic value of physical assets; and/or
- the value of long-term, contracted cash flows generated from the sale of goods and/or services produced by an asset.

Asset backed lending is typically provided to a Project Company, a corporate entity established with the specific purpose of owning, developing and operating an asset. Financing is provided to the Project Company with recourse solely to the shares held in, and assets held by, that Project Company.

Cash generation to service loans and other financing relies on the monetisation of the goods and/or services that a Project Company’s assets provide. Lenders implement a security structure that allows them to take control of the Project Company and its assets. This optimises the monetisation of goods and/or services associated with such assets if the Project Company has difficulty complying with its financing terms.

The Investment Manager uses a covenant-heavy approach to lending within these structures. This approach tailors loans to each borrower and requires the borrowers to meet well-defined and specific performance measurements or covenants. This is opposed to a ‘covenant-lite’ approach which results in a loan facility with less restrictions on the borrower and fewer protections for the lender. The Investment Manager continues to see significant benefits in a covenant-heavy approach with information reporting requirements providing increased visibility of issues, if any arise.

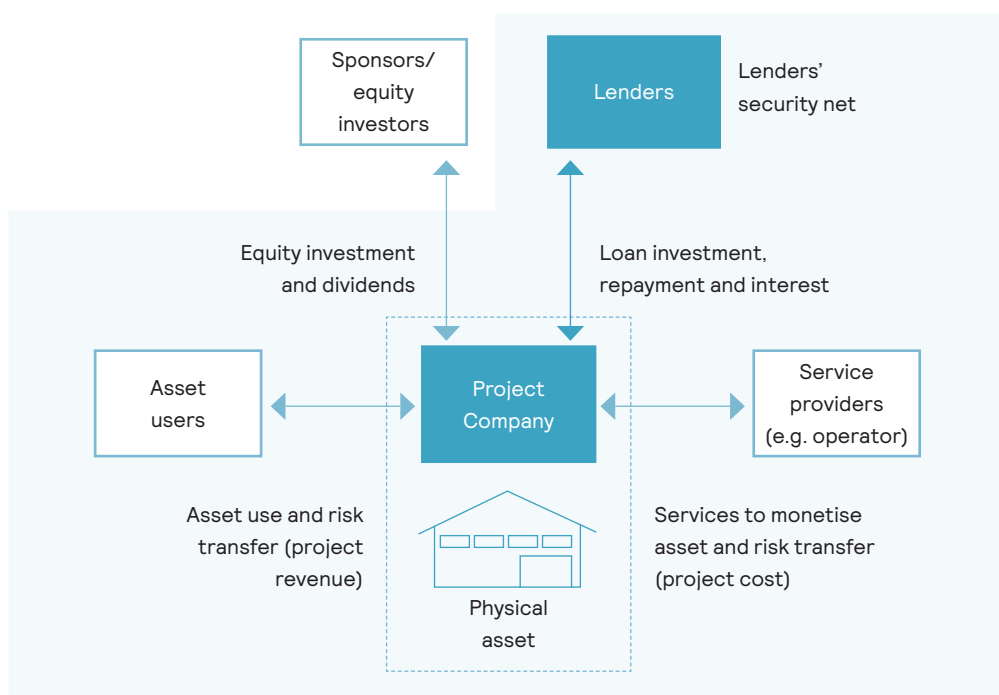
Active management

The Investment Manager continues to work closely with borrower management teams which it views as crucial to navigating the changing macro-economic environment. As well as receiving information mandated under the loan documentation, the Investment Manager’s designated portfolio management team seeks to maintain a regular dialogue with borrowers to ensure any potential issues are identified early and can be dealt with appropriately.

In the year, this engagement has included data collection relating to climate risk and ESG indicators to improve information held across the portfolio. Further information is included on pages 46 and 47.

In addition, the Investment Manager has focused on the ability of operational assets within the portfolio to meet rising energy and staffing costs.

Typical investment structure



Investment Manager's report continued

Portfolio rotation

The portfolio has a weighted average loan term of five years which allows for the rotation of capital over a relatively short period of time in a continuation scenario. This enables the Investment Manager to maintain a diversified portfolio of investments which reflect the prevailing market risk-adjusted rates of return.

Repayments of £93.5 million were received by the Company during the year. The table below sets out the top five full repayments received during the year and a description of the loans redeemed.

Full repayments during the year (top five by value)

Sector	Amount repaid (excl. fees)	Interest rate	IRR ^{1,2}	Origination date	Maturity date	Type of loan	Description
Social infrastructure	£34.3m	9.25%	9.53%	June 2019	Between June 2027 and June 2031	Senior	In December 2023, the Company received £34.3 million from the early prepayment of loans secured against a portfolio of nurseries across the UK. The proceeds comprised repayment of £33.6 million of principal and £0.7 million of accrued interest, with an early prepayment fee of £0.8 million. At the date of repayment, the valuation of the loans was £33.6 million, representing 8.2% of the total fair value of the Company's investments.
Property	£6.2m	7.00%	7.75%	June 2021	December 2023	Senior	In December 2023, the Company received repayment of £6.2 million in respect of a loan to develop affordable housing in London. The project created 30 additional housing units in the airspace between the buildings of existing affordable housing. A two month extension of the facility was agreed, with a 2% rate increase to 9% and a £20,000 extension fee payable by the borrower to the Group to allow for practical completion and sale documentation to be completed.
Asset finance	£4.3m	8.00%	9.59%	May 2019	June 2023	Senior	In June 2023, the Company received repayment of a loan secured against management contract cash flows in respect of a portfolio of project companies operating or constructing schools, health centres and care homes.
Energy and infrastructure	£3.1m	7.50%	9.16%	January 2018	December 2024, March 2025	Senior	In September 2023, the Company received repayment of two loans secured against two CNG stations located across the UK. These loans generated IRRs ¹ of 8.4% and 9.8% respectively.
Property	£1.3m	—	—	February 2020	August 2023	Subordinated	In August 2023, the Group received £1.3 million from the historic sale of an asset in respect of the Co-living group loan, a further update on the Co-living group loan is included on page 20.
Total/weighted average	£49.2m	8.51%	9.04%				

1. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.

2. The IRR¹ for asset finance loans does not include the associated costs of hedging foreign exchange exposure.

Construction projects

The portfolio has 18% direct exposure to projects under construction at the year end. This continues to provide positive portfolio diversification, often representing higher yield investments to reflect construction risk, with completed assets giving the Group exposure to substantially de-risked operational projects. A further 5% of the portfolio is exposed indirectly to construction projects through one land development project and two borrowers that offer bridging and development finance.

Across the portfolio, construction projects in the year include:

- a purpose-built care home in an undersupplied area of South Wales;
- an exclusive development of luxury homes outside London;
- student accommodation projects in Australia; and
- co-living developments in the USA.

Assets under construction are potentially at increased risk of cost overruns in a high inflation environment. Following on from the prior year, cost inflation continued through the first half of the year until a general slowdown in the final half of the year.

All the construction projects in the portfolio are under fixed-price construction contracts, with one asset in construction experiencing marginal cost overruns. However, the Investment Manager has not seen any negative impacts on the loan positions as a result of cost overruns.

In the due diligence process for construction projects, the Investment Manager considers the creditworthiness and suitability of the construction counterparty of the relevant project as a key factor in the investment process.

Investment activity

The Investment Manager has historically actively managed a pipeline of investment opportunities available to the Group to ensure the efficient deployment of capital. However, during the year investment activity was intentionally limited, with capital resources reallocated to repay the £50.0 million RCF in full and to provide shareholder value such as buying back shares.

Furthermore, following the cessation of discussions relating to the Scheme on 18 September 2023, the Board restricted the Company's investment activity, such that no investments would be made ahead of the Discontinuation Vote at the 2024 AGM, with any material amendments or extensions to existing borrowers requiring the Board's consent.

The Investment Manager strongly believes that the Company's outlook for continuation in its current form is positive, and the outlook for private credit remains strong. Periods of market volatility and economic uncertainty benefit non-bank lenders that are not subject to capital charges and reserve requirements, all of which have increased. Similarly, the returns available for private credit look increasingly attractive on a relative basis when compared with asset classes such as equities, which have not been repriced to the same extent as private credit.

Over the next 24 months, the Company is forecast to receive significant contractual repayments from its portfolio. Given the changes in the market backdrop, the Investment Manager intends to re-focus the portfolio on fewer core asset backed sectors as part of the opportunity to reset risk and return that the current market provides in a continuation scenario.

Further information on the portfolio repayment profile is provided on page 22.

Investment Manager's report continued

Asset updates

The Board and Investment Manager continue working to resolve the eight watchlist and problem loans. At the year end, these loans represented 14.9% of NAV or 16.2% of the portfolio by value.

Six of the Group's 42 loans which are with borrowers for projects in which certain directors, officers and/or shareholders of the Investment Manager have an equity interest.

Problem loan 1: Co-living group loan (£1.2 million, 0.3% of fair value of the portfolio)

Background

Co-living is a maturing sector in the private residential rental market. It offers high-quality and purpose-built accommodation alongside extensive community amenities, combining private studio apartments with larger shared spaces. Residents pay a single fee for rent and all utilities and services on flexible length contracts, at a price point below comparable market rent. Co-living accommodation typically targets recent graduates and young professionals looking for short-term, high-quality accommodation.

The Company made its first loan to the Co-living group in March 2017, which consisted of an initial investment of £5.3 million, and increased over time to support the Co-living group's growth across multiple properties. In late 2019, the Investment Manager was approached with a proposal to enter a larger facility alongside Deutsche Bank, the 'Lender group'. Under the new facility, the Company held commitments of c.38% of the total facility of £140.0 million (£52.8 million) which comprised three tranches. Only the first tranche of this facility was drawn due to the impact of Covid-19. Upon entering the loan agreement, the Company's total exposure to the Co-living group reduced from £48.5 million to £30.0 million. However, the Co-living group's total borrowing, which was across multiple lenders, increased because of the transaction.

Driven by the challenge of operating under Covid-19 restrictions, as well as the Co-living group's inability to access further secondary funding for development sites, there was a breach in the liquidity covenant in May 2021. As a result, the Lender group stepped in to progress the sale of the Co-living group.

Unfortunately, there were several failed sale attempts of the Co-living group. To realise the maximum value of the assets, the Lender group established a 'Bidco' to transfer key assets out of the Co-living group to aid stabilisation and sale.

Current position

During the year, there were further write-downs of the Co-living group loan from £4.4 million at 31 December 2022 to £1.2 million at 31 December 2023, representing the estimated recoverable value of the Group's position in the opinion of the independent Valuation Agent based on analysis provided by the Investment Manager. Total impairments against the loan of £38.2 million account for 89% of the cumulative impairments made against the Group's assets since IPO and make up a large proportion of the annualised loss ratio¹ of 0.50%.

Over the past year, the Lender group completed the last USA asset sale, predominantly marking the end of the workout process. Subsequently, the administration of key companies in the original borrower group concluded, and the companies were dissolved. As a result, the Company received a net recovery payment of £1.9 million. In the prior year, the Lender group sold its interest in the London-based development asset, Canary Wharf. The remaining London asset, Old Oak, has stabilised but there are ongoing fire safety works, in light of which no recovery to the Company is expected as a result of the assets' sale. The Group has no residual economic interest in this asset, which is reflected in the valuation at 31 December 2023.

The value of the Co-living group loan is based on the recoverable amounts held in escrow, the release of which is dependant on HMRC's ruling on VAT, as well as the decision of Tower Hamlets Local Authority on planning. An adverse HMRC ruling or failure to obtain change in use permission could result in all or some of the retention not being released. The current valuation assumes a 50% recovery of the retention amount. There have been no updates which have changed the independent Valuation Agent's view on the recoverability of the amounts. Thus, the current assumption of 50% recoverability continues to hold in their view.

Problem loan 2: Social housing (£12.6 million, 3.5% of fair value of the portfolio)

This loan has experienced persistent covenant breaches, failing to meet repayment obligations which stem from issues with one of the Registered Providers. An initiative is underway by the Investment Manager to exit 46% of the exposure by value via a disposal. Efforts to determine an exit strategy for the remaining 54% exposure by value are continuing. The independent Valuation Agent decreased the fair value of the loan by £3.3 million at 31 March 2024 reflecting short and medium-term uncertainty in the cash flows of the impacted Registered Provider, as well as the increased discount rate on that portion of the loan. At the year end, overdue interest amounts were £1.0 million, of which £0.1 million has been received post year end.

1. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.

Problem loan 3: Multi-use community facility (£1.9 million, 0.5% of fair value of the portfolio)

The Investment Manager's negotiations with the landlord post year end confirmed that the improved financial position of the food and beverage space was dependent on a revised sales and marketing strategy. These negotiations concluded that the Investment Manager's previous cash flow forecasts, supporting the value of the long lease with the current operator, were unlikely to be realised in the absence of continued capital support by the landlord. A revised exit strategy is currently under negotiation with the borrower. The independent Valuation Agent decreased the fair value of the loan by £1.2 million in the 31 March 2024 valuation, reflecting the change in strategy. At year end, overdue interest and principal amounts were £3.6 million, of which £nil has been received post year end.

Problem loan 4: Conflicted property loan in Boston, USA (£2.3 million, 0.6% of fair value of the portfolio)

This conflicted loan was classified as a watchlist loan for the purpose of the 31 December 2023 NAV, based on the Investment Manager's view at the time that full recovery was likely, particularly given continued investment in the site by the borrower to achieve the required planning permission. Subsequently, the Investment Manager received an updated asset valuation which confirmed a reduction in the value of the property secured against the loan. Given the risk that planning consent may not be achieved, and the borrower missing capital and interest payments in April and December 2023 respectively, the loan has been reclassified as a problem loan. Reflecting risks in the full recovery of the loan, the independent Valuation Agent decreased the fair value of the loan by £1.2 million at 31 March 2024. At year end, overdue interest amounts were £0.1 million, of which £0.1 million has been received post year end.

Watchlist loan 1: Conflicted student accommodation loan in Australia (£22.6 million, 6.2% of fair value of the portfolio)

This conflicted loan did not repay on the re-scheduled maturity date of 31 December 2023 and has missed interest payments since June 2023. Negotiations with the borrower to reach an agreement on an extension of the term of the facility to 31 December 2024, which will allow a sale of the underlying assets, are ongoing. The independent Valuation Agent decreased the fair value of the loan by £0.6 million at 31 March 2024. At year end, overdue interest and principal amounts were £22.8 million, of which £nil has been received post year end.

Watchlist loan 2: Multi-use community facility 2 (£3.9 million, 1.1% of fair value of the portfolio)

This loan was classified as a watchlist loan for the purpose of the 31 December 2023 NAV. As the facility is a seasonal business, it has higher revenue in the summer months than in the winter. The operator has continued enhancing the on-site performance, which has generated mixed results. The Investment Manager is continuing to monitor the on-site performance, updating forecasts where necessary. For the purpose of the 31 March 2024 valuation, the independent Valuation Agent recommended the adoption of the Investment Manager's revised forecast, and has maintained the 13.0% discount rate to reflect the continued level of uncertainty. The independent Valuation Agent decreased the fair value of the loan by £1.1 million at 31 March 2024. The valuation assumes the facility will mature at the end of the current lease term in 2032. At year end, overdue interest and principal amounts were £nil.

Watchlist loan 3: Football finance (£0.5 million, 0.1% of fair value of the portfolio)

The independent Valuation Agent has recognised a downward revaluation of £0.7 million in the fair value of the unguaranteed portion of the loan at 31 December 2023, due to uncertainty around repayments which are dependent upon the football club being sold in the future and the proceeds received. The interest rate on the loan also reduced from 10% to 4% as part of the restructuring of the syndicated loan. Therefore, the discount rate for determining the fair value of the guaranteed portion of the loan was reduced to 4%. At year end, overdue interest and principal amounts were £nil.

Watchlist loan 4: Conflicted co-living accommodation in Boston, USA (£14.2 million, 3.9% of fair value of the portfolio)

This conflicted loan was not classified as a watchlist loan for the purpose of the 31 December 2023 valuation as the asset valuation in progress at that time was expected to remain within the loan's LTV covenant. Subsequently, the Investment Manager received an updated valuation confirming the value of the property had reduced, representing a breach of the loan covenant. Given a further missed interest repayment in December 2023, the loan has been classified post year end as a watchlist loan. The independent Valuation Agent decreased the fair value of the loan by £1.1 million at 31 March 2024, reflecting an increase in the discount rate from 12.7% to 15.0%, and an assumed delayed repayment date of 31 December 2024. At year end, overdue interest amounts were £0.4 million, of which £nil has been received post year end.

The total downward revaluations at 31 March 2024 of problem and watchlist loans were £8.5 million. Further information on amounts received post year end can be found in note 19.

Investment Manager's report continued

Portfolio contractual repayment profile

At 31 December 2023, the Group was invested in a portfolio of 42 asset backed loans with a weighted average maturity of five years.

The current contracted cash repayment profile of the portfolio, including the repayment of historic and future forecast capitalised interest, and provisions for certain watchlist or problem loans as advised by the Investment Manager, is shown below.

The repayments detailed in the table below are principal amounts only. For information on the contracted cash flows including interest receipts, refer to note 17.8 to the financial statements. All figures relating to the portfolio are at 31 December 2023.

Years to maturity	Contractual repayments due (£m)	% of total repayments (cumulative)	Repayments of watchlist or problem loans (£m)
0 to 1 year	187.3 ¹	48%	41.7 ²
1 to 2 years	12.2	51%	0.6
2 to 4 years	71.4	69%	1.5
4 to 10 years	55.2	84%	14.1
10 to 20 years	57.5	98%	16.4
20+ years	6.2	100%	—

Repayments

In respect of the information set out above, there can be no guarantee that loans will be repaid in accordance with contracted terms or that loans scheduled for repayment in 2023 will be repaid within the period assumed above. Borrowers may not repay on time (or at all) and their ability to service debts may be impaired from time to time. Borrowers may elect to repay loans before contractual maturity (in full or in part) and may exercise permitted loan extensions. The Group may also extend the term of a loan at the Board's discretion to maximise value for shareholders.

At 31 December 2023, eleven loans, totalling 22.5% of the fair value of the portfolio, ten property and social infrastructure loans and one asset finance loan, including two problem loans (1.0% of portfolio) and two watchlist loans (10.1% of portfolio), have missed interest and/or principal payments and therefore remain outstanding beyond their contractual maturities. In the case of the property and social infrastructure loans, this is as a result of asset sales or refinancings (required to generate liquidity to service bullet repayments) not being achieved within the originally expected timeframes. This does not necessarily mean there is a change in the credit quality of the underlying asset and/or the Investment Manager's expectation of receiving an eventual repayment in full. The Investment Manager is proactively working with all borrowers and have agreed or is considering short-term extensions to facilitate an orderly redemption of these facilities and the settlement of interest due, where appropriate.

1. Includes the assumed receipt of £32.5 million of repayments that were due on or prior to 31 December 2023, of which, at the date of the report, £0.8 million has been received by the Company and the remainder of which includes three watchlist or problem loans (as further described on pages 20 and 21) and reflects the Investment Manager's expectation of the timing and quantum of the repayment of such loans.
2. Includes watchlist loan 4 which was designated as watchlist post year end. Refer to page 21 for further information.

Valuation

There can be no assurance that the current valuation of the loans to which the Group is exposed can be achieved. Loans made by the Group to eight borrowers and representing 16.2% of the portfolio by value have been categorised by the Investment Manager as watchlist or problem loans. The circumstances around such loans have been considered by the Board and the independent Valuation Agent. These circumstances have also been considered in the valuation of such loans in the quarterly valuation process and associated NAV.

Post year end, a conflicted loan in the social infrastructure sector (4.4% of the fair value of the portfolio) has been reviewed by the independent Valuation Agent and, as a result of increased risk associated with the valuation of the underlying social infrastructure asset, the discount rate was increased to 16.0% (31 December 2023: 11.5%). This increase in the discount rate has resulted in a downward revaluation of c. (£1.7 million) at 31 March 2024.

Of the Group's 42 loans, six are with borrowers for projects in which certain directors, officers and/or shareholders of the Investment Manager have an equity interest. Further detail can be found on pages 21 and 37 and in the portfolio information on pages 140 and 141.

Across the portfolio, the Group has exposure to real estate markets. Approximately 88% of the Group's loans by portfolio value are exposed to property, including loans exposed to property in social infrastructure sectors such as student accommodation, social housing and care homes. The portfolio includes direct exposure to seven projects that are under construction, representing 18% of the portfolio value at the year end. A further 5% is exposed to construction projects either through one land development project or three borrowers who are development finance companies. Further information on the portfolio can be found on pages 140 to 141.

Capital structure

The portfolio includes subordinated loans which are subordinate to the borrowers' senior debt. Such loans represent 32% of the portfolio value¹. Assuming all loans repay in accordance with their contractual terms, with loans scheduled for repayment in 2023 repaid no later than 31 December 2024, in the event of an Orderly Realisation, c.69% of principal outstanding at 31 December 2023 (including cash held by the Company) is scheduled to be repaid by the end of the financial year ending 31 December 2027.

Amounts realised are expected to come from contractual repayments by borrowers as the Company's loans mature in accordance with their contractual terms and from the sale of portfolio assets, including longer-dated loans.

There can be no guarantee that the Company's loans will be repaid in accordance with contractual terms. Borrowers may not fully repay the principal amounts contractually owed, may not repay on time (or at all) and their ability to service debts may be impaired from time to time. Further, proceeds from the sale of any assets may not be achieved at their carrying value².

1. The classification of the Company's senior or subordinated security is determined from the terms of the facility agreement with each borrower. However, in some cases, the borrower may utilise the Company's senior ranking loan for the purpose of lending to a third party, and for which on a look-through basis, the Company's reported senior security is subordinated. In such cases, the independent Valuation Agent fair values the Company's loan as a subordinated loan.
2. This is a target only and does not constitute a profit forecast.

Investment Manager's report continued

Target sector updates



Social infrastructure

Assets such as homes for the elderly, supported living and student accommodation.

Investing in the social infrastructure space is a core component of the Group's investment activity. The Investment Manager has targeted investments in areas where structural demand has been identified. Due diligence in this sector includes a focus on management teams, demand demographics, regulatory landscapes and the ESG impact of projects.

Social infrastructure asset operators have faced higher costs in the past twelve months due to inflationary pressures. The most acute cost increases relate to energy, along with higher wages and salaries. However, in some cases, the Group's borrowers have sought to pass on the cost increases where possible.

During the year, the Group's two multi-use community facilities experienced a mixed performance. The larger of the two assets has demonstrated improved performance, following a change in ownership and operation in 2022 and an infusion of capital into the business to improve the site and generate greater revenue. In the second half of 2023, the asset began generating profits as operations stabilised following the completion of construction works.

A strong sales and marketing strategy has been implemented, with forecasts showing growth for the assets in both revenue and profits throughout 2024. The smaller of the two sites has experienced strong occupancy levels in its non-public spaces but the food and beverage and events areas continue to underperform. The Investment Manager is working closely with the operators and other key stakeholders to decide the best path forward for the asset. Refer to page 21 for further information on these assets post year end.

The Group has exposure to a portfolio of supported living properties. Whilst a portion of the portfolio is well occupied and paying rent in full, just under half of the portfolio is facing cash flow challenges due to the performance of one Registered Provider who received an enforcement notice from the Regulator of Social Housing. The Investment Manager is working closely with the borrower and the Registered Provider to establish a solution. This exposure equates to 3.2% of NAV, and three of the properties have seen a period of reduced rent.

Care homes within the portfolio have continued to perform well throughout the year, with the four operational care home assets reaching occupancy of 92% at year end. One care home remains under construction, located in an area where care provision is significantly undersupplied. Poor weather and supply chain disruptions have pushed the practical completion date from June 2023 to April 2024. The Investment Manager has a strong relationship with the developer and remains in contact regarding potential further projects.

The Group's nursery loans were fully repaid in the fourth quarter of the year. This was an early repayment of the facility, with the Group receiving £34.3 million plus a prepayment fee.

The loans in this sector are secured against assets located in the UK (76%), Europe (8%), the US (3%) and Australia (13%).



Structural characteristics

- Provide core services
- Generate stable cash flows
- Require longer-term funding solutions
- Can benefit from partial RPI/CPI protections
- Benefit from supply/demand imbalances in particular geographies

Current investments

- Supported living
- Care homes
- Student accommodation
- Multi-use community facilities

SDG alignment¹



1. Refer to page 50 for further information.

£139.7m

Valuation of sector within the portfolio

38%

Percentage of portfolio by value



Energy and infrastructure

Assets such as CNG stations and solar O&M contracts.

The Company has historically invested in infrastructure that supports a sustainable future. Throughout the year, the Group's exposure to the energy and infrastructure sector decreased, with full repayments received on three underlying investments. This included the Group's investments in two CNG stations, which provided alternative fuel for leading UK businesses and haulage companies. These loans were repaid in the third quarter of 2023, generating an average IRR¹ of 9.2%. In the same quarter, full repayment was also received for an asset in Hong Kong, providing an IRR¹ of 9.9%.

The remaining investment within the energy and infrastructure sector is the Group's solar panel scheme investment. This provides financing secured against contracted payment for operating and maintaining solar panels.

These contracts are long term and continue to meet regular principal and interest payments over the loan life to date. Monitoring of these loans include updates on the underlying counterparties and service providers under the contracts. The asset has consistently exceeded its initial projections, attributed to an expanded portfolio of contracts secured post financial close, as well as the inclusion of indexation-linked revenues which increased contract income by 13.5% in the first quarter of 2023. Solar performance exceeded its energy generation targets for three of the four quarters in the twelve months to 30 September 2023. However, while attractive opportunities remain in the sector, there are no assets in the immediate investment pipeline.

The loans in this sector are secured against assets in the UK.



Structural characteristics

- Provide core services
- Generate stable cash flows
- Rapidly changing energy system drives need for ancillary investment
- Capital intensive sector

Current investments

- Solar O&M

£5.6m

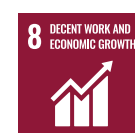
Valuation of sector within the portfolio

2%

Percentage of portfolio by value

1. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.

SDG alignment²



2. Refer to page 50 for further information.

Investment Manager's report continued

Target sector updates continued



Asset finance

Assets such as FX contracts and football finance.

Asset finance represents a variety of sectors for the Group, encompassing investments in football finance, management fee contracts, FX contracts and boiler servicing.

Loans within asset finance are often secured against long-term contracted income instead of physical assets. In assessing these loans, there is a focus on the counterparty risk for the underlying payments over the life of the loan.

Following additional investments in the sector in the last quarter of 2022, the football finance loans have broadly performed well, with the exception of one loan that was written down in the fourth quarter of 2023. Refer to pages 20 and 21 for more information on watchlist and problem loans.

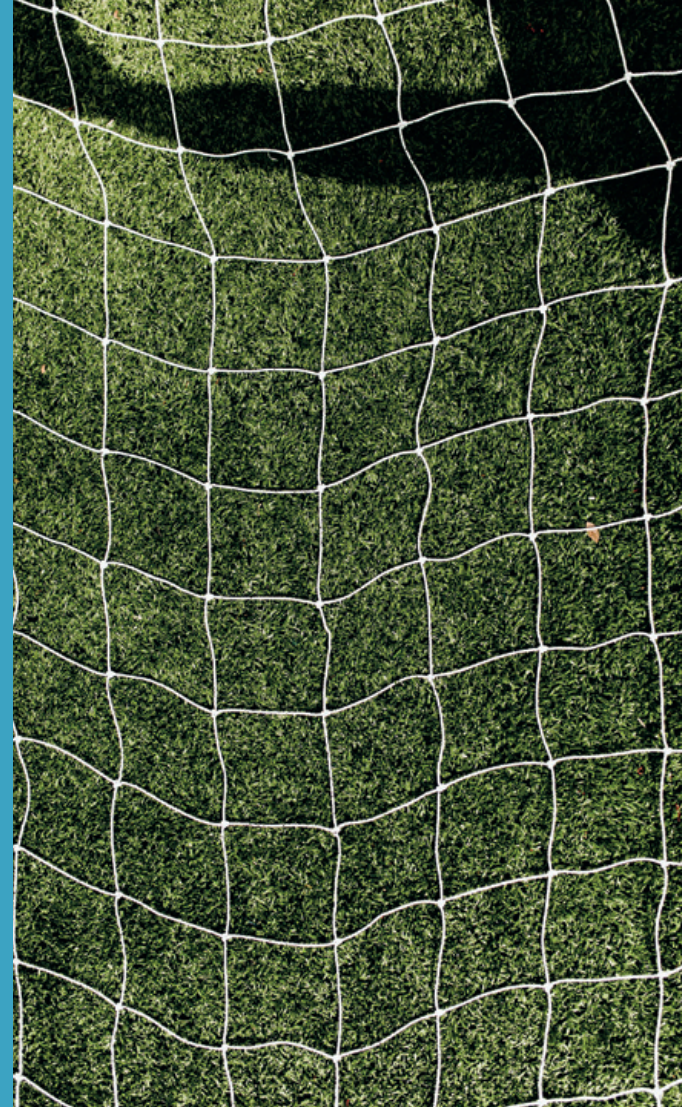
The sector is secured against revenue from major football leagues in respect to broadcast revenue or from large clubs in respect of player transfer receivables. In each loan, there are significant contractual, regulatory and market protections. Over the year, the European football finance sector has benefited from reduced listed bond yields and strong underlying revenue performance across the major European leagues.

The Group also has exposure to foreign exchange margin call financing. The loan is secured against a profitable foreign exchange business with a NAV covenant ensuring an LTV of below 50% on the loan at all times and is ultimately exposed to a diverse client pool. The borrower has exceeded expectations, with the value of total notional trades doubling between 2022 and 2023 and net assets increasing for the year. The asset is performing well, and the underlying company continues to grow its business while maintaining strong credit credentials.

A loan secured against boiler contracts faced some difficulty towards the end of 2023. The underlying company provides and installs energy efficient domestic boiler systems for homeowners in the UK. In exchange for financing boilers, the customer enters monthly payment plans with the borrower that include a buyout option. Due to heightened levels of buyouts since financial close, cash flows have been received upfront, which has led to a weaker financial performance. As a result, a 2% increase in the discount rate was applied by the independent Valuation Agent in the 31 December 2023 valuation.

Elsewhere in the portfolio, loans secured against music royalties and management fee income continue to perform in line with expectations.

The loans in this sector are secured against assets located in the UK (89%) and Europe (11%).



Structural characteristics

- Strong contractual protections
- Stable cash flows from fixed contracts
- RPI/CPI linkage

Current investments

- Boiler servicing
- Management fee income
- Credit margins against FX trades
- Football finance
- Music royalties

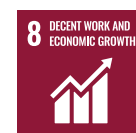
£36.2m

Valuation of sector within the portfolio

10%

Percentage of portfolio by value

SDG alignment¹



1. Refer to page 50 for further information.



Property

Assets such as financing for property purchases or development and co-living spaces.

Exposure to property assets, excluding social infrastructure, remains a key focus for the Investment Manager. The Bank of England has increased interest rates during the year in an attempt to reduce inflation, which has had an adverse effect on the property sector generally. Inflation reduced significantly in the last quarter of the year, with the market seeing signs of stabilisation. However, some discount rates were increased on property assets to account for the higher yields and muted transaction volumes during 2023.

The Group has residential investments in the USA, of which the largest investment, a 477-unit co-living building located in Boston, achieved practical completion during the year, reaching an occupancy of c.90%. However, it failed to make its fourth quarter interest payment and, post year end, it breached an LTV covenant based on a revised valuation and is now classified as a watchlist loan, refer to page 21 for further information. The Group's second co-living development in the USA, a 336-bed project, is progressing well with approximately two-thirds of the construction completed. Since the start of the project, there have been significant changes in the financial landscape, including fluctuation in foreign exchange and real estate capitalisation rates, and changes to the interest rate environment. Although the projects have shown strong demand from residents, the assets themselves have experienced pressure on their operating costs as a result of high inflation which has increased costs that are provided as part of the tenant's services. The Investment Manager is currently reviewing these aspects in consultation with the Company's independent Valuation Agent to assess their impact.

The Group's largest UK borrower, which is focused on bridging and development loans, also successfully completed origination into warehousing vehicles and subsequent exits as part of securitisations (with the largest completed in 2023) and has grown its funds under management and platform assets. The underlying loans maintain strong LTVs and collateral against which the Group's loans are secured. The three outstanding loan maturities have been extended from 31 March 2024 to the end of June and are being closely monitored.

The Co-living group loan has undergone workout developments over the course of the year. For further information, refer to page 20.

The Investment Manager remains comfortable that the Group has sufficient headroom against any decreases in property valuation, with an average LTV¹ of 66% across its property exposure. Equally, the Investment Manager maintains good working relationships with borrowers in the market, giving access to a wide range of exit strategies, including conversion into rental portfolios, sale or refinancing. Changing market conditions could affect the outcome of these strategies. The Investment Manager continues to see good opportunities for investment secured against property assets.

The loans in this sector are secured against assets located in the UK (76%), Europe (7%) and the US (17%).

£181.3m

Valuation of sector within the portfolio

50%

Percentage of portfolio by value

1. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.



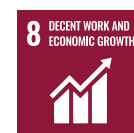
Structural characteristics

- Secured against physical assets
- Generate stable cash flows
- Short-term financing
- Well understood and valued sector

Current investments

- Bridging loans
- Buy-to-let
- Co-living
- Land
- Warehousing of buy-to-let

SDG alignment²



2. Refer to page 50 for further information.

Investment Manager's report continued

Portfolio summary

Portfolio

The Group's investments are supported by a diverse range of assets located predominantly in the UK. At 31 December 2023, the weighted average annualised yield¹ was 8.7% across the portfolio (8.7% excluding the loans held at net realisable value) with a weighted average term of five years (31 December 2022: 8.0% (8.3% excluding the loans held at net realisable value) and six years, respectively). In total, 35 loans have been advanced to Project Companies with operating assets. The remaining seven loans have been advanced to Project Companies with assets under construction (31 December 2022: 50 operating loans and nine under construction).

Investment valuation

The independent Valuation Agent carries out a fair market valuation of all the Group's investments on behalf of the Board on a semi-annual basis based on information received from the Investment Manager and other market data. Any assets which may be subject to discount rate changes are valued on a quarterly basis. The valuation principles used by the independent Valuation Agent are based on a discounted cash flow methodology.

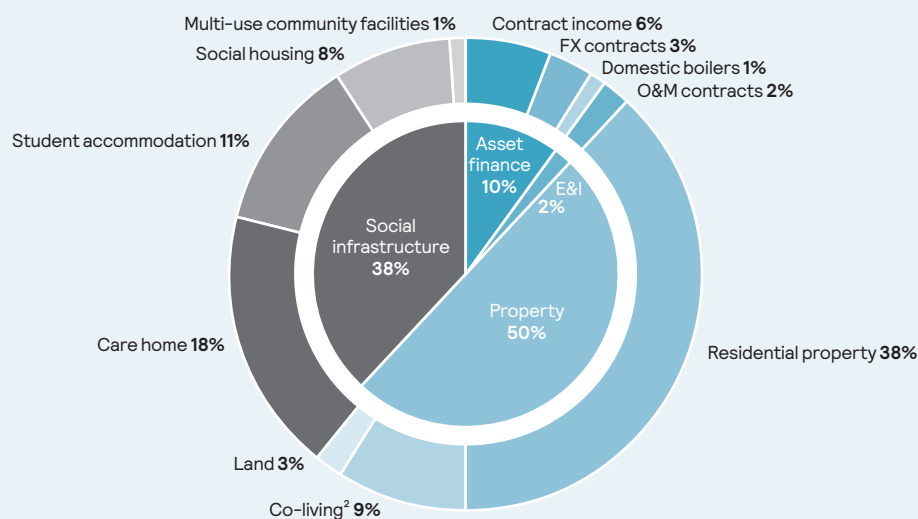
A fair value for each asset acquired by the Group is calculated by applying a discount rate (determined by the independent Valuation Agent) to the cash flow expected to arise from each

asset, as forecast by the Investment Manager, determined by contractual arrangements for each loan.

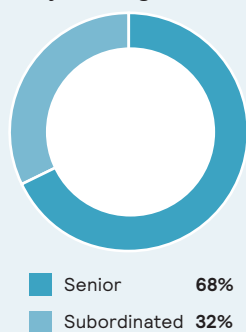
At the year end, all assets were valued using a discounted cash flow methodology apart from the loans held at net realisable value. Further detail on the valuation methodology is given in note 17 to the financial statements.

In the opinion of the independent Valuation Agent, the weighted average discount rate¹ across the portfolio at 31 December 2023 was 10.5% (31 December 2022: 8.4%). The valuation of investments is sensitive to changes in discount rates applied. Sensitivity analysis detailing the impact of a change in discount rates is given in note 17 to the financial statements.

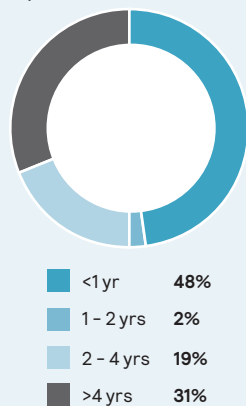
Portfolio by sector type



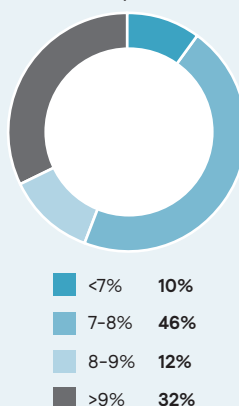
Portfolio by security ranking³



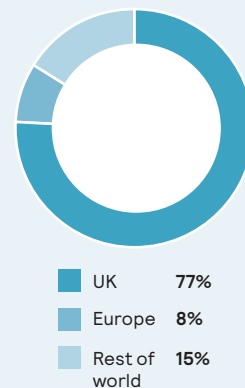
Portfolio by term profile



Portfolio by interest rate profile

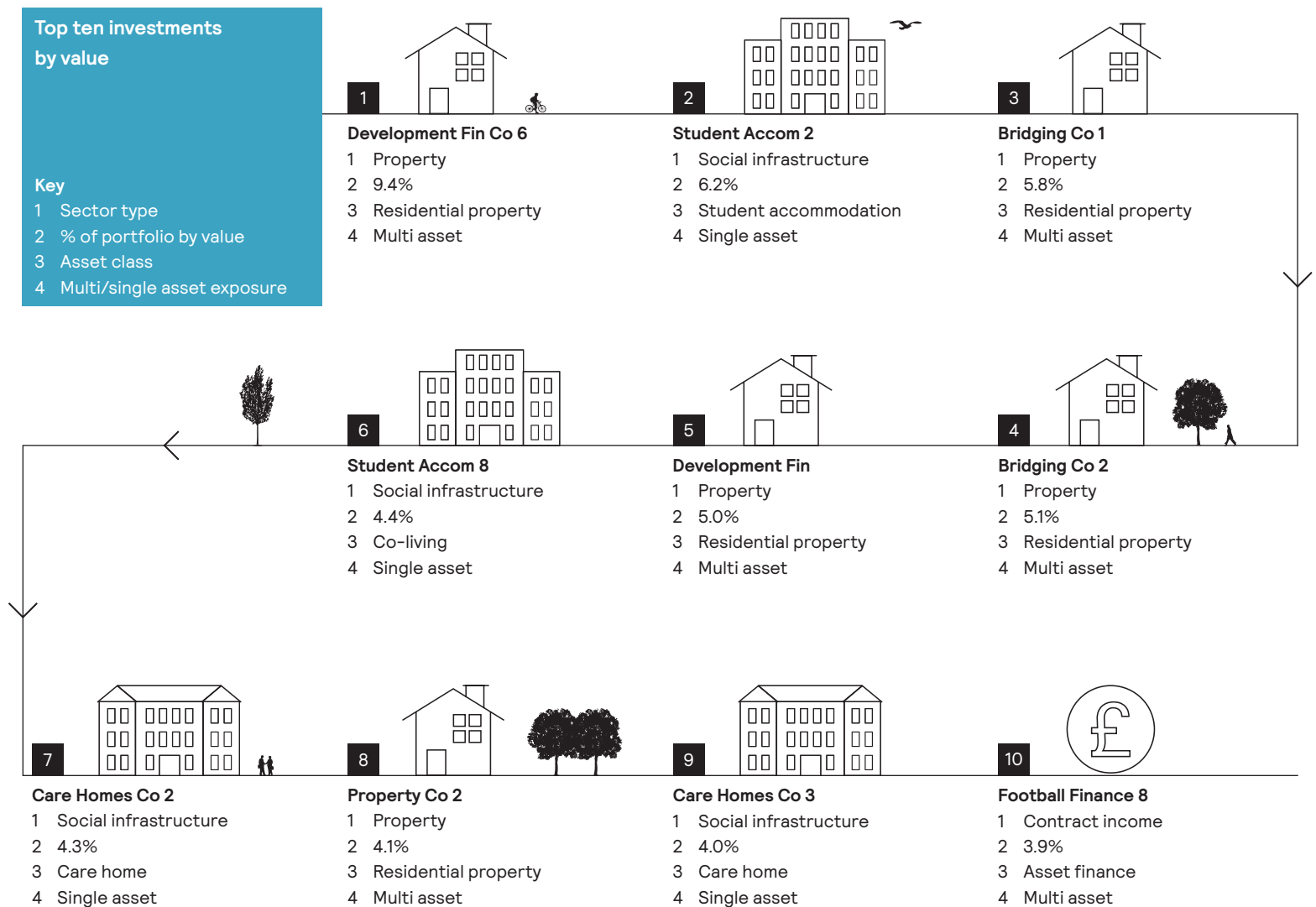


Portfolio by location



1. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.
 2. The Co-living group loan represents 0.3% of the NAV at 31 December 2023.
 3. The classification of the Company's senior or subordinated security is determined from the terms of the facility agreement with each borrower. However, in some cases, the borrower may utilise the Company's senior ranking loan for the purpose of lending to a third party, and for which on a look-through basis, the Company's reported senior security is subordinated. In such cases, the independent Valuation Agent fair values the Company's loan as a subordinated loan.

Investment portfolio



Further information on the Group's portfolio can be found on page 140 and 141, and on the Company's website.

Investment Manager's report continued

Investment portfolio continued

Portfolio optimisation

The Investment Manager has identified a number of strategies which could be used to enhance the portfolio or boost returns in a continuation scenario, where the Company continues to invest in accordance with its current investment mandate. The Investment Manager is keeping these options under consideration to continue offering investors optimal returns matched to the risk profile of the portfolio.

Strategy	Sub-participation or disposal of loans	Extensions and amendments on existing loans	Moving into senior positions and new sectors	Use of inflation mechanics
Description	<p>As exposure in certain sectors grows, the Investment Manager can consider opportunities to syndicate existing loan positions to other lenders.</p> <p>This would allow the Group to continue supporting key borrowers whilst releasing capital for reinvestment. The Group has utilised this structure in respect of one loan secured against a student accommodation development.</p>	<p>The current environment may mean that borrowers look to extend loans anticipating better valuation outcomes in the next 12 to 18 months.</p> <p>Where extensions have been agreed to date, the Investment Manager has successfully negotiated rate increases of between 2.0% and 3.5%.</p> <p>Furthermore, follow-on investments under existing facilities can also be considered, enabling attractive terms to be struck on additional capital in assets that are well understood by the Company. Importantly, when considering any extensions, the Company will evaluate the performance of the borrower to date. This ensures that any changes in the facility's risks are thoroughly assessed and appropriately reflected in the terms of any extensions.</p>	<p>Market rate movements have positioned the Company to be competitive on more senior positions. Given the Company's appetite for both senior and subordinated positions, this shift allows the Company to construct blended 'stretch' positions by securing first-ranking security, rather than subordinating, while still offering similar LTV thresholds for a blended interest rate. This strategy could enable the Company to deploy larger facilities on attractive transactions that previously only met return targets through subordinated investments. These positions also provide the Company with greater control and enhanced protections.</p> <p>Additionally, the current market conditions present an opportunity to reduce the Company's risk profile without sacrificing returns, thanks to the higher lending rates now available.</p>	<p>Mechanics on 52% of the portfolio allow for adjustment of rates and/or principal, based on changes in bank rates or inflation rates.</p> <p>Ensuring these mechanics are included on longer-dated loans in the portfolio provides a form of future protection against inflationary increases.</p>
Risks to the Company	<ul style="list-style-type: none"> Introduction of third parties could result in competition on assets and reduced control. 	<ul style="list-style-type: none"> Lower rotation into new sectors could impact on ability to access future pipeline deals. 	<ul style="list-style-type: none"> Senior positions have historically been at lower returns. 'Stretch' senior positions are typically at higher LTVs, akin to subordinated investments. 	<ul style="list-style-type: none"> Some mechanics may not be possible to enforce if the borrower's businesses cannot support additional debt.
Benefits to the Company	<ul style="list-style-type: none"> Boost returns. Reduce borrower concentration risk. Allow for reinvestment into new loans. 	<ul style="list-style-type: none"> Boost returns. Allow for rapid reinvestment, often into de-risked and stabilised assets. 	<ul style="list-style-type: none"> Diversification across portfolio. Improved security coverage. Improved risk-adjusted returns. 	<ul style="list-style-type: none"> Provides hedging against interest rate movements.

Portfolio performance

The portfolio currently consists of 42 loans across 18 discrete asset classes, providing investors with a diversified portfolio of assets. Over the life of the Company, the aggregate annualised impairments that have been recognised equal 0.5% of amounts invested, with 89% of such impairments attributable to the Co-living group loan¹, having invested over £1.0 billion in multiple asset backed sectors.

The Company's investment objective is designed to provide investment performance that is not correlated with wider markets. This has been challenged throughout a period of significant market volatility: the exit of the UK from the EU; the Covid-19 pandemic; the onset and continuation of war in Europe and associated impact on energy costs; and more recently a period of higher inflation and interest rates. Whilst the majority of the Group's investment portfolio has demonstrated resilience to wider market volatility, the performance of some of the loans has been impacted. Refer to pages 20 and 21. Key learnings have been taken from these loans which will help support the successful evolution of the Company's investment approach in a continuation scenario.





Through a difficult macro-economic environment during the year, eight loans classified as problem or watchlist loans have proved challenging, with specific negotiations of revised terms ongoing. Refer to the asset updates on pages 20 and 21 for further information. Notwithstanding these challenges, 34 loans in the portfolio, representing 84% by value, performed in line with the Investment Manager's expectations. The dividend continues to be fully covered on an adjusted EPS² basis. The dividend was 0.68 times covered by an EPS of 4.27 pence and 1.11 times covered by an adjusted EPS² of 7.02 pence.

Key investment highlights




The Group made 18 advances during the year totalling £32.7 million (including planned capitalised interest of £7.7 million), comprising one loan to a new borrower and 17 follow-on investments to existing borrowers. From these advances, one was in the energy and infrastructure sector, eleven in property and six in social infrastructure projects. The Group received capital repayments of £93.5 million, along with prepayment fees of £1.2 million.

Post year end, the Group received 22 repayments totalling £41.4 million. There are £nil investment drawdown commitments at the date of the report.

Investments and repayments made during the year³

Sector		Average term	Security	Status	Investments	Repayments
	Asset finance	3 years	Senior	Operational	—	£17.6 million
	Energy and infrastructure	2 years	Senior	Operational/construction	—	£10.1 million
	Property ⁴	2 years	Senior/subordinated	Operational/construction	£20.3 million	£29.5 million
	Social infrastructure	7 years	Senior/subordinated	Operational/construction	£12.4 million	£36.3 million
Total					£32.7 million	£93.5 million

Investments and repayments made post year end³

Sector		Average term	Security	Status	Investments	Repayments
	Asset finance	2 years	Senior	Operational	—	£2.5 million
	Property	1 year	Senior/subordinated	Operational/construction	—	£32.9 million
	Social infrastructure	11 years	Senior	Operational	—	£6.0 million
Total					—	£41.4 million

1. Past performance is not a guide to future performance.
2. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.
3. The Company makes its investments through its wholly owned Subsidiary. Refer to note 1 to the financial statements for further information.
4. Includes development projects that were subject to review by the Board under the Company's investment approval process; refer to page 19.

Investment Manager's report continued

Investment Manager update

In July 2023, Joanne Fisk, the co-fund manager of the Company, resigned from the Investment Manager. Further, in December 2023, Saira Johnston, the Chief Financial Officer of the Investment Manager and an investment committee member, also resigned from the Investment Manager. Ms Johnston's role was filled by internal appointments within the Investment Manager that are known to the Company.

In October 2023, the Investment Manager appointed Anthony Curl as Chief Investment Officer. Mr Curl will be supporting the ongoing provision of services to the Company alongside Philip Kent and the wider team and has also joined the Investment Manager's investment committee. He has a long and successful track record in the long income and credit sectors, joining the firm from Alpha Real Capital, where he was co-head of long income, managing several investment teams for strategies including social infrastructure and commercial ground rents.

Post year end, in January 2024, the Investment Manager announced the appointment of Albane Poulin as its new Head of Private Credit. Ms Poulin joins from abrdn where she was Head of European Private Placements, as well as the lead fund manager of the Secure Income and Cash Flow Fund, investing in a range of private credit asset classes. In her new role, she will oversee the Investment Manager's activities in private credit as well as leading new strategies in this asset class.

Mr Curl and Ms Poulin join Philip Kent on a permanent basis with the support of twelve full-time professionals. The wider team provides dedicated and shared credit investment resources, dedicated portfolio management, as well as investor relations, finance, legal, compliance and administrative services.

The Investment Manager benefits from an experienced investment team that is responsible for over £4.2 billion of investment in the infrastructure, real asset and real estate debt sectors since 2008. Biographies of key personnel at the Investment Manager are listed on pages 78 and 79.

The Company continues to benefit from the breadth and depth of experience of the Investment Manager's investment committee. The Investment Manager benefits from its strategic relationship with ORIX Corporation, which acquired 70% of the business in 2021. ORIX is publicly traded in Tokyo and New York, with a market capitalisation of c.¥3.9 trillion at the date of the report and assets under management of ¥55 trillion at 31 March 2023, including significant credit and asset management businesses in Japan, Asia more widely, the US and Europe.

Investment management arrangements

It is the Board's current intention, subject to the outcome of the Discontinuation Vote and agreement of revised terms, that the Investment Manager is retained to provide investment management services in connection with the Orderly Realisation. The Board considers the Investment Manager to be best placed to provide such services, taking into account its knowledge and experience of the Company's investment portfolio.

To this effect, the Board has commenced discussions with the Investment Manager in respect of proposals for the provision of investment management services during the Orderly Realisation under revised terms that seek to incentivise the Investment Manager to achieve the objective of maximising shareholder returns in a timely manner.

In due course the Investment Manager will engage with shareholders to present its plan for the Orderly Realisation of the Company.

Further information will be set out in the Orderly Realisation Circular which will be published on 2 May 2024.

Inflation

Inflation in the UK subsided throughout the year, with the Consumer Prices Index ("CPI") rising by 4.0% in the twelve months to 31 December 2023. This is down from its peak of 11.1% in October 2022; however, the rate is still materially above the Bank of England's target rate of 2.0%.

Throughout the year, in a bid to reduce inflation, the Bank of England continued with successive base rate increases, reaching 5.25% in August 2023, where it was held for the remainder of the year.

Whilst there is a lag between market movements and the Group's investment activity, the Group is able to respond to the macro-economic environment in a number of key ways:

- including inflation and/or base interest rate linkage mechanics in the portfolio. These mechanics are set out in more detail on page 30 and provide a level of protection against market movements; and
- re-investment of loans at prevailing rates. Given the weighted average duration of the portfolio is five years, the Group is able to reset rates in the portfolio over a relatively short time period. Over the year, the average IRR¹ on the top five repayments was 9.04%, with one new investment made at a yield of 8.25%.

In total, 52% of the portfolio by value has partial inflation and/or interest rate protection through three different mechanisms:

- direct interest rate linkage to CPI, RPI (primarily for social housing assets) or Bank of England base rate (for property assets with senior lending lines);
- indirect linkage through principal indexation (which increases principal when RPI or CPI rises above a certain level); and
- share of any upside generated in project SPVs through profit-sharing mechanisms or share warrant structures.

The Investment Manager works closely with borrowers when applying these mechanics to ensure they are appropriate and do not place undue pressure on a borrower's business model. To date these mechanics have been applied to all loans where the contractual triggers have been met except in two instances: one where the Subsidiary holds the equity position, so there was no benefit in doing so, and one where the loan had amortised ahead of schedule so the impact of triggering the increase would have been minimal.

In the year, these mechanics had the following impacts:

- yield movements: increases in the Bank of England base rate during the year meant that 16 loans were subject to rate increases. Increases were an average of 80 basis points over the year on these loans; and
- NAV movements: correspondingly, increases in yield as well as principal indexation on five loans offset some of the decreases in NAV due to discount rate increases. The independent Valuation Agent does not typically forecast any future increases in rates or loans due to inflation, due to the discretionary nature of applying these mechanics.

There is no doubt this year has been one of significant market change. However, the Investment Manager is pleased to see the positive impact these strategies and mechanics have had on the portfolio.

Inflation remains a key area for the Investment Manager to monitor, particularly regarding its effect on operational assets facing cost challenges.

1. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.

Financial review of the year

The Company has generated total income of £26.3 million and paid dividends of 6.325 pence per share. The total shareholder return¹ for the year was -14.1% and total NAV return¹ was 5.0%.

Financial performance

The Company has experienced significant challenges throughout the year, primarily due to prevailing market factors. These factors, combined with increased volatility in the UK economy, have contributed to the Company's shares trading at a persistent discount¹ to NAV.

The Investment Manager has continued to focus on the problem and watchlist loans during the year. Further information can be found on pages 20 and 21.

Income

In the year to 31 December 2023, the Company's portfolio generated interest of £31.7 million (31 December 2022: £31.9 million), broadly in line with the prior year.

Other income of £1.5 million (31 December 2022: £1.5 million) was generated which included prepayment fees of £1.2 million in respect of loans prepaid in the year (31 December 2022: £0.8 million). The amounts received during the year included prepayment fees in respect of loans to a nursery provider and loans to a CNG station operator.

Total income was offset by net valuation losses of £7.4 million primarily due to further write-downs of the Co-living group loan, sector-based discount rate increases and other fair value movements applied by the independent Valuation Agent. Further information is given in the Investment Manager's report on pages 20 to 23.

The Company invests in derivatives for investment purposes and efficient portfolio management. Overall net gains on derivative financial instruments for the year were £0.5 million (31 December 2022: losses of £0.8 million). Further information is given in notes 3 and 17 to the financial statements.

Expense

The Company incurred total expenses of £5.3 million (31 December 2022: £5.7 million) which include the Investment Manager's fee, other third party service provider costs and Directors' remuneration. Total expenses have decreased compared with the prior year, reflecting a decrease in variable fees due to a reduction in NAV and the reimbursement of arrangement fees. This was offset by professional costs in respect of various strategic incentives considered during the year, including the Scheme, where the fees connected to this were met by the Investment Manager. Further information on expenses is given in notes 18, 4 and 6 to the financial statements respectively.

Finance costs have increased significantly compared to the prior year. The Company utilised its RCF for a large portion of the year, with an average utilisation of 71%. Interest on amounts drawn under the RCF are charged at the rate of SONIA plus 2.1%. SONIA has increased by 1.8% to 5.2% since the prior year end. The Company repaid the RCF in full on 18 December 2023 in line with the Board's stated aim of reducing leverage. At the year end, £nil was drawn (31 December 2022: £31.9 million). Further information on the RCF is given in note 14 to the financial statements.

Total profit and comprehensive income for the year was £18.3 million, an increase from £7.7 million in the prior year.

1. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.

Financial review of the year continued

Dividends

The Company paid 6.3¹ pence per share in interim dividends. The total dividend was 0.68 times covered by EPS of 4.27 pence for the year and 1.11 times covered by an adjusted EPS² of 7.02 pence.

Should the proposals set out on page 5 be approved by shareholders it is the Board's current intention to maintain the Company's existing level of dividend of 6.325 pence per annum whilst the Company remains substantially invested, for as long as is practicable³.

Further information on dividends is given in note 9 to the financial statements.

Ongoing charges

The Company's ongoing charges ratio², calculated in accordance with the AIC methodology, was 1.3% (31 December 2022: 1.2%) for the year to 31 December 2023.

Earnings

The Company generated EPS of 4.27 pence (31 December 2022: 1.75 pence). As noted previously, adjusted EPS² for the year was 7.02 pence per share (31 December 2022: 6.58 pence), which more than fully covers the dividend of 6.3¹ pence per share for the year.

Adjustments to discount rates result in the revaluation of investments, which are reflected through fair value movements in the statement of comprehensive income, in accordance with IFRS Accounting Standards.

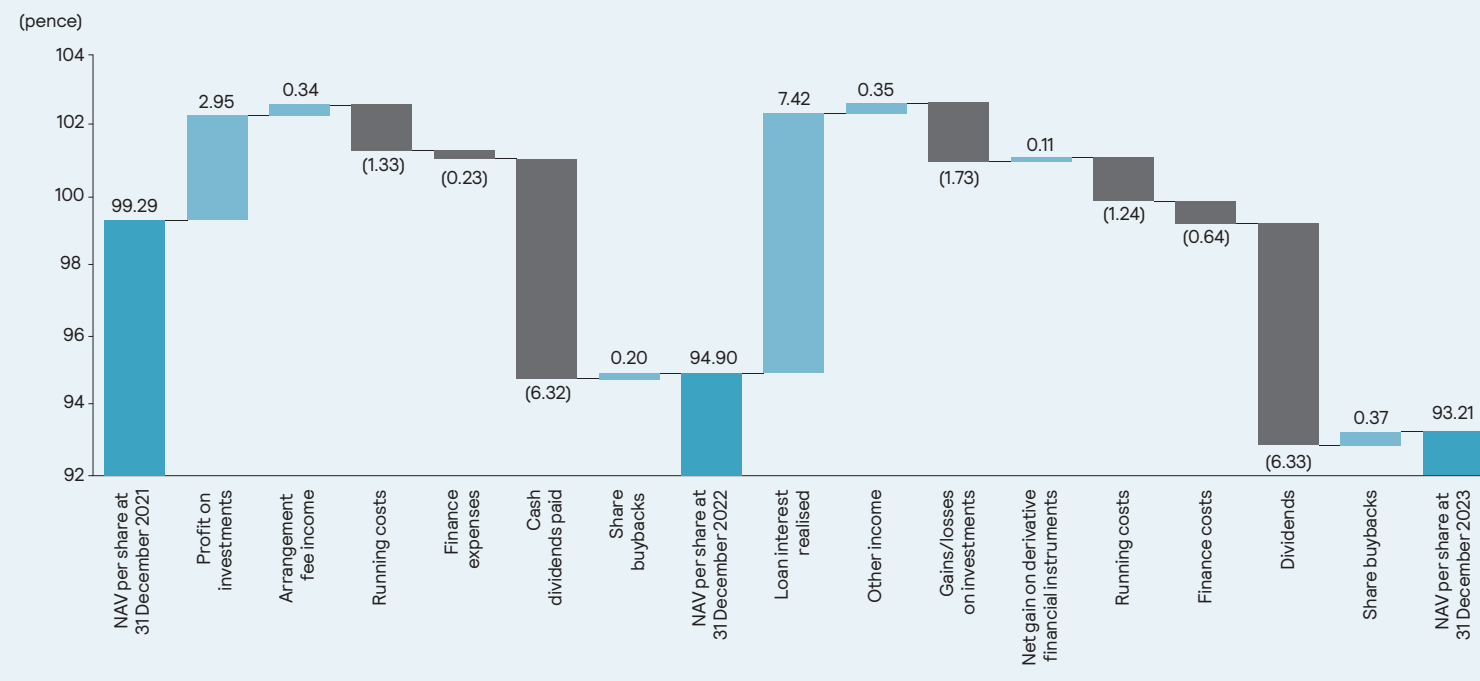
NAV and share price

Net assets attributable to equity holders at 31 December 2023 were £396.7 million, decreasing from £412.0 million at 31 December 2022. The Company's NAV per ordinary share decreased from 94.90 pence at 31 December 2022 to 93.21 pence at 31 December 2023.

Prior to the market volatility seen since the onset of the Covid-19 pandemic in March 2020, the Company's shares have predominantly traded at a premium² to NAV since the Company's IPO in 2015, with an average premium² of 3.3%.

Since March 2020, the Company's shares have predominantly traded at a discount² to NAV, with an average discount² of 12.8%. The current geopolitical and market uncertainty has negatively impacted the Company's share price this financial year, with shares trading at an average discount² of 29.6%. At the date of the report, the Company's shares are trading at a c.25% discount to NAV.

NAV analysis – year ended 31 December 2023 and 31 December 2022



1. Total dividends of 6.325 pence per share includes a quarterly dividend of 1.58125 pence per share for the quarter to 31 December 2023, which was declared post year end.
2. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.
3. This is a target only and does not constitute a profit forecast.

Share repurchases

The Company continued its share buyback scheme during the year to demonstrate support for the share price and benefit from the consequent accretion to NAV. A total of 8.5 million shares were repurchased, at a cost of £6.5 million, during the period to 23 June 2023 at a weighted average price of 78.85 pence per share, generating 0.38 pence in NAV accretion to the Company. No buybacks occurred in the second half of the year while work was undertaken on the Scheme and the subsequent Strategic Review. At 31 December 2023, there were 442.0 million ordinary shares in issue, of which 16.4 million were held in treasury.

Conflicts of interest

In the year, £3.5 million of planned capitalised interest was recognised in respect of six of the Group's loans which are for projects in which certain directors, officers and/or shareholders of the Investment Manager have an equity interest. The total principal value of these loans at 31 December 2023 (including accrued and capitalised interest) was £75.0 million with a fair value of £74.6 million, representing 20.6% of the fair value of the investment portfolio. Further information is given in the portfolio information on pages 140 and 141.

In accordance with the Company's investment approval process, the initial investment, and any subsequent amendments to the terms of projects in which directors, officers and/or shareholders of the Investment Manager have an equity interest, are reviewed and approved by the Board.

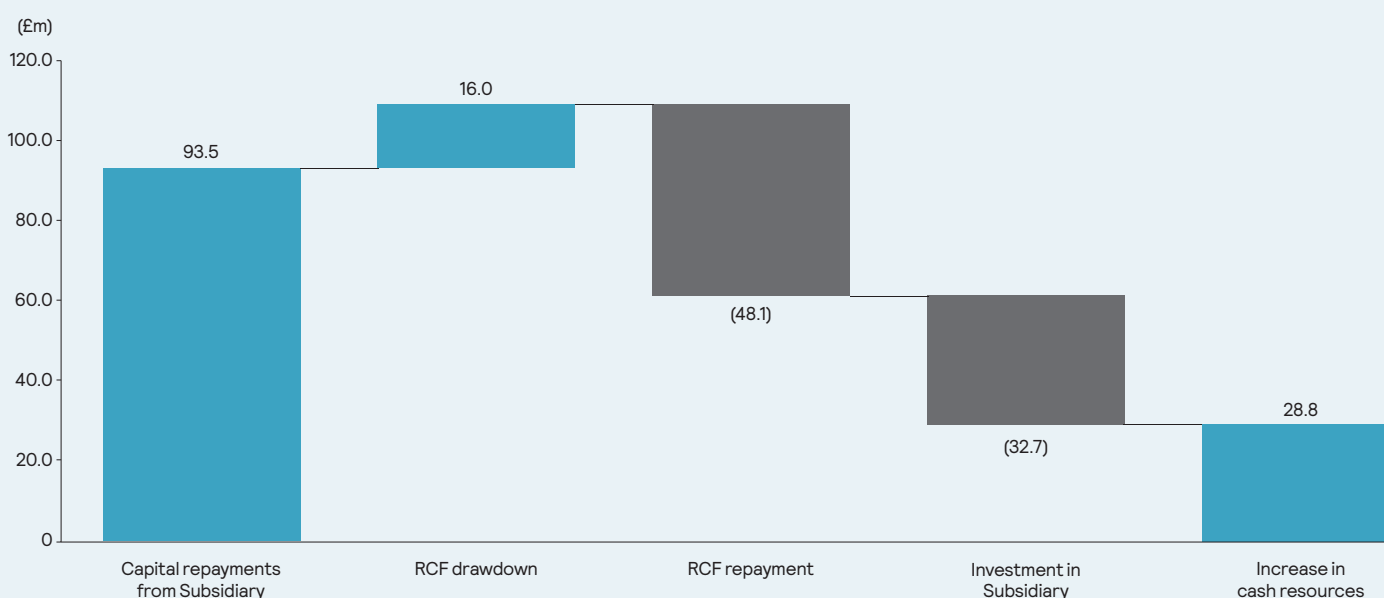
Where there is overlap for a potential investment with GCP Infra, a third party company advised by the Investment Manager, GCP Infra has a right of first refusal over such investment. GCP Infra has not exercised this right of first refusal since the Company's IPO.

Cash position

The Company received interest payments of £31.7 million and capital repayments of £93.5 million from its Subsidiary in the year (31 December 2022: £31.9 million and £95.6 million respectively). The Company paid cash dividends of £27.0 million during the year and a further £6.7 million post year end (31 December 2022: £27.8 million and £6.8 million respectively). The Company advanced £32.7 million (31 December 2022: £102.0 million) to the Subsidiary to make investments in accordance with the investment policy. Further information is included on page 31.

Post year end, the Group received repayments totalling £41.4 million. There were £nil investment commitments at the date of the report. Total cash reserves at the year end were £30.9 million (31 December 2022: £10.3 million).

Financing analysis – year ended 31 December 2023



Sustainability

The Company aims to operate a viable, long-term business model with the intention of benefiting society whilst positively impacting the environment.



Introduction

Sustainability is now a standard criteria considered by investors during the investment process. The increased focus on sustainability across the asset management landscape has created new challenges for companies surrounding the creation of sustainable value and the implementation of ESG strategies. It has also led to the introduction of regulation and an increase in sustainable reporting frameworks to enhance transparency and accountability in reporting. These frameworks allow investors to assess whether ESG commitments are being met.

The Board and the Investment Manager are committed to ensuring the Company's ESG disclosures, to the extent possible, reflect the Company's impact. This helps drive increased consistency in reporting across the industry, and also ensures the integration of ESG factors into day-to-day operations.

As such, the incorporation of the Principles of Responsible Investment ("PRIs"), as adopted by the Investment Manager into investment decisions and investment management processes, is an important consideration for the Board.

The Company has an ESG policy and framework in place which guides how ESG issues are considered throughout the Company's operations and is used to guide decisions, processes and policies where possible. The Company aims to operate a sustainable business model that does not detrimentally impact the environment while benefiting society. Refer to page 40 for more information.

While the Group does not have an ESG investment objective, the Board is aware of the need for increased social infrastructure across the UK. The social infrastructure sector makes up 38% of Company's portfolio, offering homes for the elderly, supported living, community facilities and student accommodation. The social infrastructure sector remains a key component of the Group's investment portfolio.

The social housing assets the Company invests in are designed to meet a range of housing needs for adults with physical and/or mental disabilities. The provision of this accommodation makes a meaningful difference to the quality of life for vulnerable and disabled residents, the majority of whom would be faced with hospital or registered care without the availability of the housing. Tenants are encouraged to take up, manage and maintain their tenancies, and are provided with support in their applications for welfare benefits.

While the Company's exposure to the energy and infrastructure sector has reduced in recent years due to full repayments received on underlying investments, one investment remains. The loan provides financing for the operation and maintenance of rooftop solar panels and is secured against contracted cash flows. This in turn contributes to increased renewable energy capacity across the UK.

Over the year, the Investment Manager worked to improve its ESG data collection project to improve data coverage across the portfolio. To do so, the Investment Manager simplified its ESG questionnaire and amended the reporting period to give borrowers more time to respond. As a result, the average data coverage increased to 56% from 34%. Refer to pages 46 and 47 for more information on the project.

In addition, the Investment Manager recognises the transitional risk in regulatory changes to improve energy efficiency standards. As such, it collates data on EPC ratings across relevant properties in the portfolio. Where EPC ratings are below a 'C' rating, it works with property owners to understand how the Company can support work to improve the energy efficiency of the properties.

Sustainability continued

ESG framework

The Company has embedded governance protocols into its business management processes. To develop this further, the Directors have aligned the Company's ESG framework with the PRIs. A summary of the Company's ESG framework is included below and further information can be found on the Company's website.

1. Decision making

ESG considerations will be part of the decision-making process

The Company

Decisions are governed by the terms of reference of the Board and its committees, which include ESG considerations.

The portfolio

The Investment Manager takes ESG considerations into account in its decision-making processes which are in line with its Responsible Investment policy.

2. Ownership

The Company will include ESG issues in its policies and procedures

The Company

The key operating manual and policies are regularly reviewed to ensure ESG requirements and considerations are fully incorporated.

The portfolio

The Investment Manager has put in place a Responsible Investment policy which includes deal screening and ESG due diligence.

3. Partnership

The Company will consider the ESG approach of companies it chooses to engage with and invest in

The Company

Prior to the appointment of each service provider, full due diligence is carried out on the provider which includes a summary of the Company's approach to ESG issues.

The portfolio

Through relationships with borrowers and appropriate provisions in key agreements, the Investment Manager will seek access to appropriate disclosures on ESG issues.

4. Acceptance

The Company will promote acceptance and implementation of ESG considerations

The Company

The Board promotes acceptance and implementation of ESG considerations through engagement with the Company's stakeholders and through a review of its service providers.

The portfolio

Through reporting and investor engagement, the Investment Manager will share progress on implementation of the PRIs and look to utilise examples of best practice in the market.

5. Enhancement

The Board will ensure the Company's ESG framework is maintained

The Company

The Board will continue to engage with key service providers to monitor and assess their proposals to enhance the Company's ESG framework, and seek advice where required.

The portfolio

The Investment Manager will continue to engage with advisers and stakeholders, including borrowers, to seek ways to enhance the ESG framework.

6. Reporting

The Company will report on progress against its ESG framework and other external applicable frameworks

The Company

The Board will provide regular and transparent reporting to investors on specific ESG considerations. The Board is also committed to full compliance with applicable reporting standards in line with regulatory requirements.

The portfolio

The Investment Manager will report on how investment processes incorporate ESG, including incentive mechanisms and any new transactions in social or energy infrastructure.

ESG framework | 1. Decision making

ESG considerations will be part of the decision-making process.

Responsible Investment

The Company does not have an investment objective of sustainable investment nor does it use ESG criteria to evaluate investments or assess their social impact within its stated investment appetite. The Directors do, however, believe in the integration of Responsible Investment principles across all aspects of the Company's operations. This includes the application of ESG screening to ensure the long-term success of the Company and the success of the sectors in which it operates.

The Company delegates investment management in accordance with the investment mandate to the Investment Manager; as such, the key decisions made by the Board in the ordinary course of business relate to the Company's strategy, stakeholder engagement and oversight of risk management. Further information can be found in the TCFD section on pages 54 to 57.

As previously announced, no material amendments or extensions of facilities to existing borrowers will be made ahead of the Discontinuation Vote at the 2024 AGM without the Board's prior consent. A procedure has been put in place between the Board and the Investment Manager to manage this.

During the year, a number of ESG workstreams were put on hold following the cessation of the Scheme and will remain on hold until the Discontinuation Vote is held at the May 2024 AGM. Notwithstanding this, focus continued over the period on the collection of portfolio data by the Investment Manager as part of the data collection project and improvements therein. As a result, there has been a significant improvement in data coverage at the portfolio level. Further information is given on pages 46 and 47.

The Investment Manager has over a decade of experience of investing in assets that have a core environmental and social benefit and has been a signatory to the PRIs since 2019. The Investment Manager is committed to the adoption and implementation of the PRIs, recognising that doing so better aligns its investment activities with the broader interests of society and benefits the environment. Further information on the PRIs can be found on the PRI website: www.unpri.org. Refer to page 42 for more information on the Investment Managers PRI score.

ESG investment processes at the Investment Manager are overseen by the Responsible Investment committee whose role it is to monitor and implement ESG initiatives across the organisation, including reporting, regulatory compliance, staff training and making recommendations to the board of the Investment Manager.

The Responsible Investment committee is also responsible for the Investment Manager's Responsible Investment policy, which outlines its commitments as a business and the continued integration of ESG considerations in accordance with the PRI. The Responsible Investment policy was first published in 2020 with the most recent version available on the Investment Manager's website.

The Responsible Investment committee comprises senior personnel from across the Investment Manager's business, including a representative from the Company's portfolio management team. This ensures the Board is informed of any relevant developments at the Investment Manager and that best practice can be shared across the different managed investment funds. In 2022, the Investment Manager committed additional resources by recruiting a senior member of staff to lead on ESG and legal matters.

Sustainability continued

ESG framework | 1. Decision making continued

PRI reporting

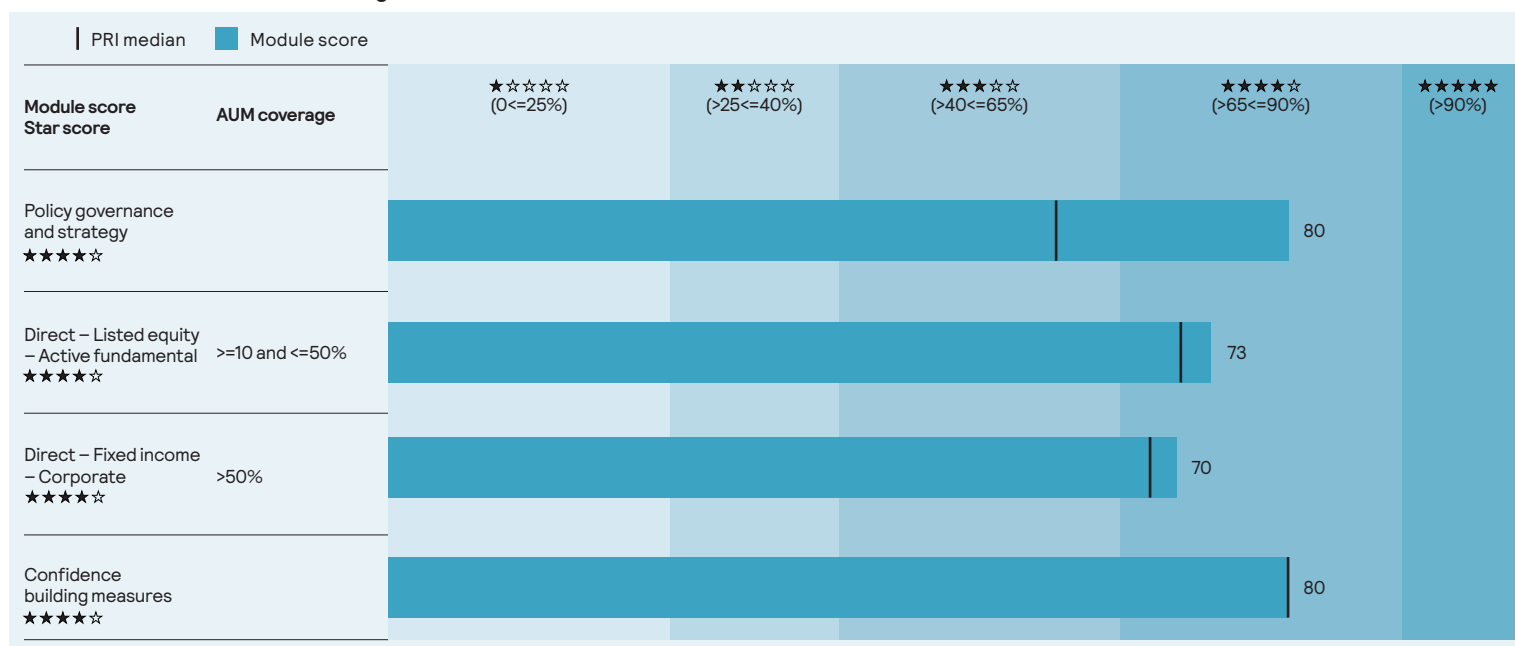
As part of its responsibilities as a signatory to the PRIs, the Investment Manager is required to report publicly on its responsible investment activities each year. In turn, it receives a PRI assessment report. The assessment uses the reported information of signatories and outlines how signatories responsible investment practices compare year-on-year, across asset classes, and with peers at a local and global level.

This year, the Investment Manager improved its PRI assessment score, scoring an average of 76 points out of 100 and four out of five stars for each category, improving its overall score by one star. This was a significant improvement on 2021's¹ score of an average of 52 points. The improvement followed the introduction of a voting and engagement policy and voting reporting, and the introduction of a formal diversity policy and DEI training for all employees, along with a number of other ESG initiatives.

The Investment Manager scored higher than average in each category when compared with the median. The chart below provides further information on the Investment Manager's results.



PRI scorecard - Investment Manager



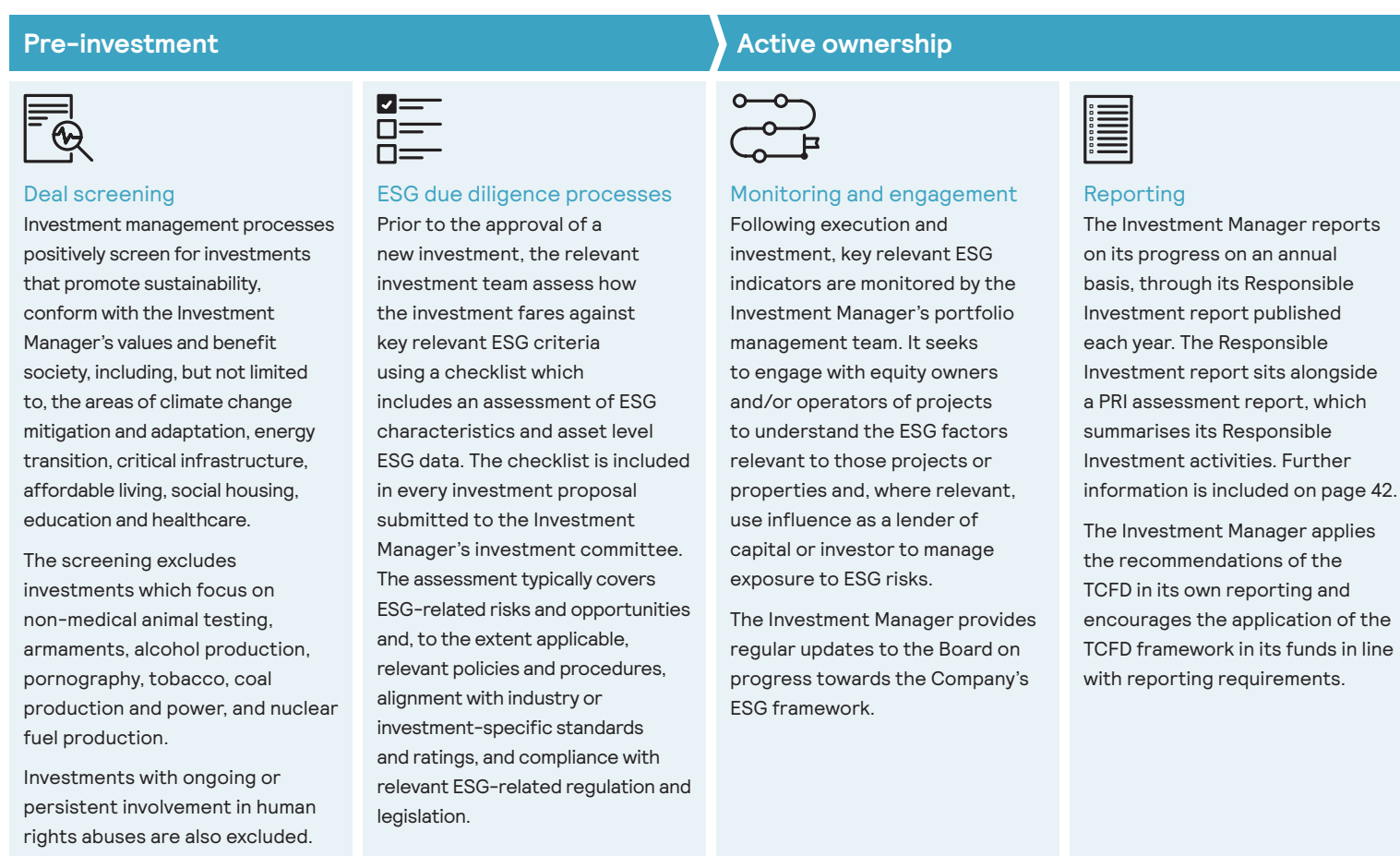
1. The PRI assessment process for 2022 was suspended by the PRI.

ESG framework | 2. Ownership

The Company will include ESG issues in its policies and procedures.

Responsible Investment policy

The Responsible Investment policy is integrated into investment management processes through pre-investment, active ownership and governance processes, as detailed below.



Governance and responsibilities

The Investment Manager operates a Responsible Investment committee which comprises senior personnel from across the business, including a representative from the Company's portfolio management team. This ensures the Board is kept informed of any relevant developments at the Investment Manager and that best practice can be shared across the different managed investment funds.

The committee is responsible for all aspects of the Investment Manager's Responsible Investment policy, including oversight of ESG initiatives, reporting, regulatory compliance, staff training and making recommendations to the board of the Investment Manager.

The Investment Manager has a clearly defined governance structure with detailed processes that cover business operations, including investment management and portfolio monitoring and reporting. It obtains assurance over the design and operation of its finance and IT controls annually through the completion of an ISAE 3402 audit by external auditor, Deloitte LLP.

In addition to the board of the Investment Manager, the Investment Manager employs a team of professionals with in-depth experience in the investment industry and asset classes.

The Investment Manager's approach to stewardship and engagement is based on the Principles of the UK Stewardship Code 2020 and is in line with its philosophy on responsible investing.

Sustainability continued

ESG framework | 2. Ownership continued

Investment Manager

The Investment Manager encourages the use of public transport and minimisation of flight travel in its business travel policy and operates an electric vehicle scheme and a bike to work scheme. The Investment Manager's premises in London hold a BREEAM 'Excellent' rating with the offices powered by renewable energy.

All staff are provided with stainless steel, BPA-free, reusable water bottles and insulated cups to reduce the impact of single use plastic and the Investment Manager operates an office consumables and paper recycling scheme. Furthermore, the Investment Manager has achieved its aim of running its operations on a carbon-neutral basis by fully offsetting its emissions through contributions to a carbon offsetting portfolio run by provider Climate Impact Partners, whose aim is to reduce one billion tonnes of CO₂ by 2030.


Whilst the Board and the Investment Manager do not consider offsetting to be a perfect solution to the impact its activities have on the environment, both parties believe it is a useful starting point. The ultimate aim is to reduce emissions with the intention of continuing to investigate and follow best practice in this area.

In 2022, the Investment Manager was awarded an 'Investors in People' accreditation, which assesses how organisations perform in areas such as employee engagement, communication, organisational culture and work practices. The Investment Manager has committed to working with Investors in People with the aim of further improving its accreditation level over a three year period. Investors in People is the UK's leading people management standard, designed to help organisations improve performance through their employees. Part of this is giving employees the opportunity to reach their potential through the provision of regular training to staff, including funding for specific industry qualifications by the Investment Manager.

The Investment Manager also operates a range of measures to support the physical and mental health of its employees, including a private healthcare package, weekly fitness classes and guidance on healthy working practices. This year, two training sessions were held for employees on improving mental health at work. Hybrid working arrangements are offered to all employees.

This year, the Investment Manager introduced a formal diversity policy, as well as diversity and equality training for all employees. It also carried out an anonymous questionnaire to help understand the makeup of its workforce. This means the data can be monitored over time as the Investment Manager strives for improvement in diversity, equality and inclusion ("DEI"), while also considering specific areas of focus. A broad range of data was collected, including ethnicity, disability, neurodivergence, sexual orientation, gender identity, social background and caring responsibilities of employees. This has helped the Investment Manager establish a baseline and will facilitate improved diversity reporting going forward.

The Investment Manager participated in the 10,000 Black Interns programme this year, which offers paid internship opportunities across more than 25 sectors, along with training and development opportunities. It offered two paid internships as part of the programme, with both interns working across the Company. It also facilitated a paid internship for a student as part of the Young Women into Finance programme. Young Women into Finance is a not for profit organisation dedicated to the eradication of gender bias for new graduates entering the finance industry, with a goal of achieving a 50/50 gender split in graduate recruitment figures by 2030. The intern worked across various teams at the Investment Manager. It intends to continue its involvement with the 10,000 Black Interns programme and the Young Women into Finance programme in the forthcoming year.



Gravis employee
volunteering at Little
Village



The Investment Manager operates a volunteering initiative which encourages employees to volunteer for charitable or not-for-profit purposes by giving an additional two days' paid leave plus two days' unpaid leave per year. It continues to operate its charity of the year scheme, and engage with fundraising, events and through volunteering. This year, for the second consecutive year, the charity chosen was Little Village, a charity that supports local low-income families. A total of 38 employees participated, with more than 185 hours spent volunteering over the year¹.

This provided employees with the opportunity to work as a team, engage with the local community and understand more about the hardships low-income families with young children face. Total amounts raised for Little Village to date are £48,000. The Investment Manager also made donations to the other charities shortlisted as part of its charity of the year initiative.

In April 2024, The Investment Manager was awarded a B Corporation ("B Corp") certification. The B Corp certification measures a company's social and environmental performance. Refer to page 53 for more information.



Interns conducting a site visit at Birmingham Biopower Ltd



Gravis employees volunteering at Little Village



1. Twelve month period to 31 March 2024.

Sustainability continued

ESG framework | 3. Partnership

The Company will consider the ESG approach of those it chooses to engage with and invest in.

Corporate engagement

The Board maintains a positive dialogue with its key service providers and, through its annual review of service providers, it monitors any reported social and environmental issues. All key service providers, including the Investment Manager and the Administrator, regularly report on their efforts and progress in areas such as diversity, the environment and social impact. Service provider initiatives include policies such as promoting paid rather than unpaid internships, charitable donations, volunteering days and encouraging low carbon office environments as well as business travel.

Portfolio governance

Governance at the Investment Manager is clearly managed and articulated and is considered essential to achieving the Company's investment strategy, managing risks and creating a positive environmental and social impact. The Investment Manager engages with the underlying assets' boards to seek to improve and enhance governance where required at the portfolio level.

The Investment Manager has a clearly defined governance structure with detailed processes that cover business operations, including investment management and portfolio monitoring and reporting.

The Investment Manager's designated portfolio monitoring team engages with borrowers on an ongoing basis, with the origination and portfolio monitoring teams undertaking site visits to assets in the UK and Ireland. Regular monitoring of information and financial covenant obligations is also carried out to ensure compliance and the early identification of potential issues.

Site visits are an important aspect of the portfolio management role and have both technical and commercial benefits. They allow the Investment Manager to assess the performance of both asset and operator and investigate any important project issues. Furthermore, site visits give the Investment Manager the opportunity to understand the operations and relationships important to each asset and its long-term success. This year, site visits covering 36% of the portfolio by value at 31 December 2023 were conducted.

The Investment Manager values its relationships with borrowers and recognises the importance of ensuring time is spent building and maintaining these relationships. By engaging with borrowers and understanding their needs, the Group is able to provide bespoke lending solutions which reflect the contractual fundamentals and inherent risks of the underlying assets and cash flows.

Data collection project

This year, the Investment Manager continued to progress its data collection project to collect material ESG metrics from the underlying portfolio for the twelve month period to 30 September 2023. The Investment Manager chose to amend the reporting period from 31 December to 30 September in the current year to facilitate the earlier completion of the data collection project. The period reported in the prior year was the twelve month period to 31 December 2022.

The process involved the portfolio management team liaising with each borrower to obtain relevant ESG material data points on underlying portfolio assets as detailed in the table on page 47. When considering materiality, the Investment Manager was advised by an external consultant, MJ Hudson, using framework guidance provided by GRESB, the EDCI and alignment with the UN SDGs. The scope of the data collection will be kept under review in a continuation scenario.

MJ Hudson is a business with over 15 years of experience in the sustainability sector, assisting companies with their ESG implementation and transition plans. In 2022, they advised on the ESG data collection process and conducted an independent review of the data for significant inconsistencies. Furthermore, they assisted the Investment Manager in the creation of an ESG dashboard to report on performance against relevant themes and KPIs across the portfolio which was utilised in the 2023 data collection project.

In a continuation scenario, the Investment Manager will continue to liaise with asset operators to improve and refine the availability of future ESG data which will be collected and used as part of its regular reporting to shareholders in the Company's annual report. It may also consider obtaining independent assurance over the data in future years.

Several challenges continue to be faced in respect of the availability of the data requested, insofar as the Company is a debt provider and does not own or control the assets in the portfolio. In a continuation scenario, for any future investments, the Investment Manager intends to include additional data clauses in loan documentation to facilitate the collection of ESG data more easily.

This was the second year the data collection project was carried out and the Investment Manager has been able to provide a year-on-year comparison of ESG data. In order to present a more detailed picture of the data collected, carbon emissions have been reported separately from the other environmental metrics and the comparative period restated.

In 2022, the twelve month period for the data collection ended in December. However, this year the data collection period was amended to September, giving borrowers and asset owners more time to respond to the questionnaire and giving the Investment Manager more time to analyse and verify the data. From this, the Investment Manager was able to increase the portfolio coverage of all areas, with the exception of the social area. The weighted average coverage increased to 56% from 34% in the prior year.

This has provided an improved and more reliable outcome for the project. Additionally, as this was the second year of the project, borrowers were more familiar with the process of completing the ESG data questionnaire.

The Company uses the data collected from the portfolio to monitor the impact of ESG factors over time. Through the data collection process, the Investment Manager has been able to increase engagement with borrowers on ESG matters. The process also allows the Board and the Investment Manager to monitor ESG-related risks and implement appropriate mitigation plans where necessary.

Data collection

ESG area	Data points	Portfolio coverage ¹ 30 September 2023	Portfolio coverage ¹ 31 December 2022	Increase/ (decrease)
Environmental	EPC ratings, green certifications, environmental targets and board oversight, target formation processes, energy conservation strategies, and promotion of green initiatives.	79%	30%	49%
Social	Total FTEs, attrition rates, staff training/career development programmes, satisfaction surveys, employee health and wellbeing programmes, absenteeism rate, employee fatalities, H&S lost time incidents, hours worked and s106/CIL contributions.	29%	29%	—
Governance	Gender diversity of board and employees, ISO alignments/certifications, memberships/signatories, and policies for: bribery and corruption, diversity and discrimination, whistleblowing, supplier code of conduct, ESG, modern slavery and data protection.	69%	42%	27%
Carbon footprint	Electricity and gas usage and energy use from renewable energy, water consumption, and waste generated and disposed.	25%	15%	10%
Impact	People housed, nursery places, bursary places, residents in care homes, renewable energy exported, biogas exported, new homes built, homes renovated and client satisfaction.	35%	34%	1%
Total		56%	34%	22%

1. Percentage of data responses received per ESG area, weighted by portfolio value.

Sustainability continued

ESG framework | 4. Acceptance

The Company will promote acceptance and implementation of ESG considerations.

Societal benefits

The Group's business model aims to invest in assets which are integral to society. The Group provides benefits to society through the provision of funding for assets such as housing for vulnerable adults, care for the elderly and urban regeneration. The Group also provides finance for property purchases or developments which mainstream lenders cannot serve, for reasons other than credit quality.

At the year end, FTEs at a portfolio level comprised c.1,300, of which c.1,000 are in the social infrastructure sector and c.200 in the property sector, with the remainder comprising asset finance, energy and infrastructure projects.

In a continuation scenario, the Group intends to continue supporting borrowers that positively impact society, as they enhance the security of the portfolio and benefit the communities the assets operate in.

ESG incentive schemes

Recognising the Company's role as a responsible debt provider, the Board approved a policy in 2021 to introduce ESG target incentives for selected loans. Through this mechanism, agency fees (typically between £10,000 to £20,000 per annum for each loan) can be waived if agreed ESG targets or schemes are implemented by the borrower. The incentive mechanism is included in all term sheets issued by the Investment Manager on behalf of the Group.

To date, the Company has funded three ESG initiatives:

- a bursary scheme for full-time nursery places for underprivileged children across the nursery investments (2021). Refer to page 52 for further information;
- reduced-rent desk or studio spaces for entrepreneurs in the community facilities in which it invests (2022); and
- free co-living beds to support refugees fleeing from the conflict in Ukraine at co-living properties (2022).

ESG framework | 5. Enhancement

The Board will ensure the Company's ESG framework is maintained.

The Company's ESG policy and framework, which can be found on the Company's website, was developed by the Board and the Investment Manager in 2021. The policy is based on the PRIs to ensure alignment across the business and with stakeholders. This year, the Company's ESG policy was reviewed and updated by the Board. The policy is reviewed at least annually following the publication of the Company's annual report.

ESG risks

The Board considers ESG risks, including those relating to climate change, to be a transverse risk and are managed within the existing risk categories identified in the Company's risk register, with responsibilities overseen by the relevant Board committee.

The Investment Manager has carried out a climate risk assessment for each underlying portfolio asset to assess the actual and potential impacts of climate-related risks and opportunities across the portfolio. Further information is given on page 56. Based on the climate risk analysis undertaken, the Investment Manager does not currently propose to make any changes to financial forecasts due to climate risk.

ESG framework | 6. Reporting

The Company will report on progress against its ESG framework and other external applicable frameworks.

The Board is committed to full compliance with applicable reporting standards in line with regulatory requirements and, with the help of the Investment Manager, continues to increase the Company's ESG and climate change reporting. Further information on the data collection process and Company metrics and targets can be found on pages 46 to 47 and 57 respectively.

In the year, the Investment Manager developed an ESG dashboard which provides regular and consistent reporting to the Board on progress with the Company's ESG objectives, which are outlined in the ESG policy. The reporting also includes ESG metrics in respect of fee incentive mechanisms, new transactions, due diligence issues raised on new transactions highlighted as a result of the Responsible Investment checklist, and ongoing monitoring.

The Investment Manager updated its investment checklist this year. The checklist is used for new investment proposals submitted to the Investment Manager's investment committee. The revised checklist captures ESG data from potential borrowers in line with the annual data collection process; further information on the process is included on page 43. The checklist is used to ensure the due diligence process captures the relevant ESG data required for ongoing monitoring and compliance.

The Investment Manager publicly reports its responsible investment activities¹ in its annual Responsible Investment report which can be found on the Investment Manager's website. The Investment Manager's Responsible Investment committee has continued its work to achieve compliance with the core elements of TCFD during the year. The Company is exempt from reporting against TCFD requirements, however the Investment Manager and Board believe that the Company must be transparent about the financial implications of climate change on their business and clearly set out the actions they are taking to manage climate change risks and opportunities. The Investment Manager encourages the application of the TCFD framework across its funds.

SDR

While the United Kingdom's Sustainable Disclosure Requirements (SDR) legislation labelling requirements do not come into effect until after the Discontinuation Vote, and as the use of the SDR labels is not mandatory, the Board has not yet decided whether to apply an SDR label to the Company. Based on preliminary portfolio analysis, it is anticipated that a 'Sustainability Mixed Goals' label may be able to be applied to the Company, should the Board decide to use an SDR label¹.

Consumer Duty

During the year, the Investment Manager produced an Assessment of Value report for the Company which was prepared in accordance with the requirements of the FCA Consumer Duty. Although the Company is not required to produce an Assessment of Value report, the Investment Manager believes that as a company listed on the LSE it is good practice to do so.

ISSB

The ISSB has developed an initiative of globally consistent sustainability disclosure standards, which provide a framework for companies to disclose ESG factors, standardise reporting and ensure investors make informed decisions about the environmental attributes of a company.

The new ISSB standards encompass IFRS S1 and IFRS S2. IFRS S1 provides a set of disclosure requirements which will enable companies to communicate the sustainability-related risks and opportunities they face over the short, medium and long term. IFRS S2 requires an entity to disclose information about climate-related risks and opportunities to users of general-purpose financial reports who are making decisions about the provision of resources to the entity.

While the global standards became effective on 1 January 2024, the FCA is currently in a period of consultation until June 2024 regarding proposals to implement disclosure rules referencing UK-endorsed IFRS S1 and IFRS S2 for listed companies. As such, the FCA is aiming to finalise its policy position by the end of 2024, and is aiming to bring the new requirements into force for accounting periods beginning on or after 1 January 2025, with the first reporting beginning in 2026.

The Company intends to comply with the necessary requirements in a continuation scenario.

1. This is subject to further analysis and review.

Sustainability continued

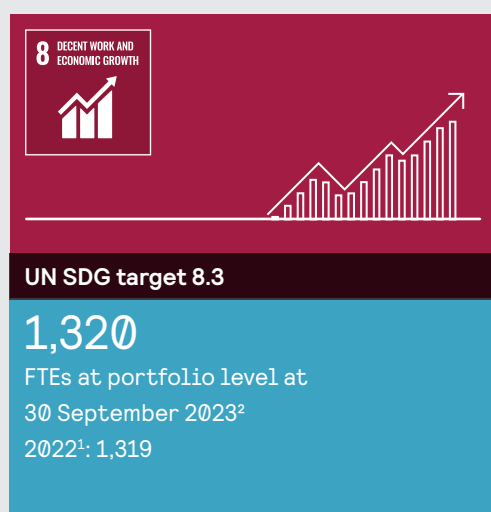
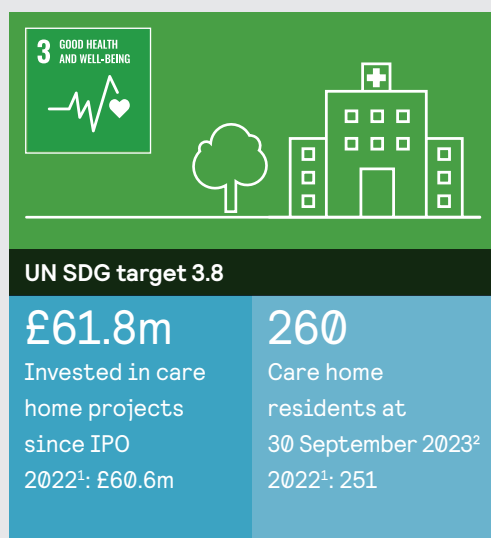
Impact

UN SDGs

By investing in assets that are integral to society, including those which contribute to a greener economy, the Group's activities align with certain UN SDGs. These goals were created in 2015 by the United Nations to create a better and more sustainable world by 2030. Examples include good health and wellbeing, quality education, and sustainable cities and communities.

Through its investments in social infrastructure, the Group has a positive impact on the provision of high-quality and safe buildings for vulnerable adults, healthcare patients and students. Furthermore, the Group's approach to governance, labour and health and safety mean the Group positively contributes to the employees, customers, suppliers and local communities in which the assets operate.

UN SDG alignment of the Group's portfolio



1. Data at 31 December 2022.
2. Period chosen to facilitate inclusion in the annual report.
3. 44% female employees compared to 56% male employees at the Investment Manager.
4. Projects that meet the definition of 'affordable housing' under the UK Government's National Planning Policy Framework.

Affordable housing

SDG
alignment



After identifying affordable housing as an undersupplied sector in the UK, the Group entered into an agreement with a property developer to develop affordable housing in Southwark, London.

The borrower was founded in 2016, with the aim of identifying opportunities to unlock developments using the airspace of existing buildings in London. Airspace development is a technique whereby unused space on the rooftops of existing buildings is converted into new homes. Central to the business model was using this space to develop affordable housing. The borrower has been involved in forming the National Planning Policy Framework, advocating for the use of airspace development to facilitate the provision of new homes.

The borrower entered into a facility agreement with the Group to secure £5.3 million of senior financing, which benefits from first ranking charge over the property and fixed and floating charge over all of the assets. The balance of the funding was provided by a grant from the Greater London Authority ("GLA") and through equity of the business with an inter-creditor agreement in place to subordinate GLA funding and shareholder loans.

The project created 30 additional housing units in the airspace between the buildings of an existing affordable housing development in Southwark, London. While all works on the project have now been completed, some delays were experienced due to material and labour shortages due to the Covid-19 pandemic, which resulted in the construction programme being extended by the contractor from March 2022 to March 2023. Final works slipped further from the March 2023 completion. A two month extension of the facility was agreed, with a 2% rate increase to 9% and a £20,000 extension fee payable by the borrower to the Group, to allow for practical completion and sale documentation to be completed.

On completion, the scheme was purchased by the local authority under an option agreement in place with the developers.

In December 2023, the borrower repaid their loan of £6.2 million in line with the contractual terms of the agreement.



Sustainability continued
Impact continued

ESG incentives

SDG
alignment



Since 2020, the Group has funded ESG incentive schemes, including a bursary scheme for children to attend nurseries secured against loans in the portfolio, giving underprivileged children access to high-quality early years education. In 2023, the number of bursary places offered by the nursery increased from seven to twelve.

The Investment Manager believes that every child should be given the opportunity to gain an outstanding education. However, years of underfunding in the early years industry has meant access to high-quality education is not possible for all, especially those living in deprived areas. This has been exacerbated by the rise in social inequality due to the cost of living crisis in the UK.

The nurseries financed by the Company aim for best-in-class status; five of the nurseries in the group have been awarded 'outstanding' ratings from Ofsted. The operational assets are fully occupied with significant waiting lists. By removing the challenges of accessing affordable, high-quality early years education for these families, the Investment Manager hopes the children will have a positive future.

The curriculum at the nurseries is focused on environmentalism and is designed to create informed and inspired changemakers, with one of the four key pillars taught being Global Responsibility. The nurseries are a participant in the Eco Schools programme and 19 of their nurseries have achieved green flag status.

In addition, the nurseries achieved B Corp status in 2022, and are a zero waste to landfill business, with almost all of their nurseries run on renewable energy. The nurseries have also switched nappy providers, with nappies now made from 100% green energy.

The nurseries have also had a strong social impact, becoming a Restless Age diverse employer, which promotes employment for people aged over 50 in the UK. They also participated in the Stonewall Diversity Champions Programme, and gained their Level 1 Disability Confident award.

The loans were repaid in December 2023, generating net cash proceeds of £35 million which were used to fully repay the outstanding balance under the RCF.



B Corp

The Investment Manager was awarded a B Corporation ("B Corp") certification in April 2024.

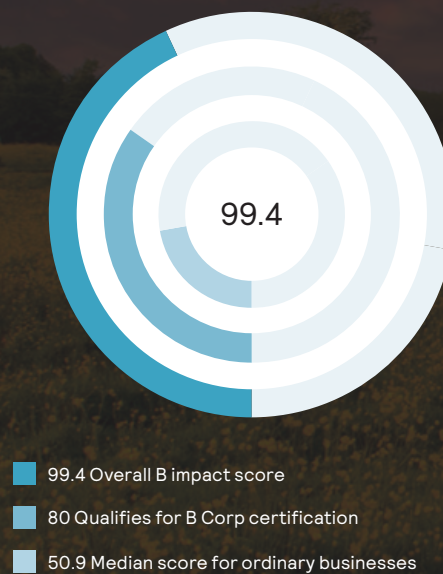
The B Corp certification demonstrates a company's commitment to social and environmental causes and governance. From supply chain and input materials to charitable giving and employee benefits, the B Corp accreditation verifies that a business is meeting high standards of social and environmental performance, transparency and accountability. An organisation must undergo a detailed review process to obtain certification as a B Corp.

The B Impact Assessment evaluates a company's practices and outputs across five categories: governance, workers, community, the environment and customers¹.

- Governance: focuses on a company's mission, ethics, transparency and engagement with employees, board members and the community.
- Workers: concerns efforts to improve the work environment, including compensation, benefits, training and safety practices.
- Customers: evaluates how a company serves its customers by providing services focused on the greater good and how it engages in ethical marketing and data privacy.
- Environment: assesses a company's efforts towards sustainability and reducing its carbon footprint.
- Community: examines a company's contributions to the economic and social wellbeing of the communities it operates in, including supplier relations and charitable giving.

Certified B Corporations are leaders in the global movement for an inclusive, equitable, and regenerative economy. The Investment Manager's first B Corp score of 99.4 demonstrates its commitment to social and environmental standards. As such, achieving B Corp status is a significant milestone for the Investment Manager, which scored particularly well in the areas of health, wellness and safety, and employee engagement and satisfaction.

Overall B Impact Score



1. B Lab Europe.

Sustainability continued

TCFD: Governance



Compliance statement

For accounting periods beginning on or after 1 January 2022, companies with a UK premium listing are required to report on a comply or explain basis against the recommendations of the TCFD. Although the Company, as an investment company, is not required to comply, it has provided a summary description under the four TCFD pillars of governance, strategy, risk management, and metrics and targets, giving consideration to the TCFD 'Guidance for All Sectors' and the supplemental guidance for the financial sector. The Company is therefore not in compliance with the eleven recommendations of the TCFD at this stage.

Governance

The Company does not have an investment objective of sustainable investment nor does it use ESG criteria to evaluate investments or assess their social impact within its stated investment appetite. The Directors do, however, believe in the integration of Responsible Investment principles across all aspects of the Company's operations. This includes the application of ESG screening to ensure the long-term success of the Company and the success of the sectors in which it operates.

The Company delegates investment management in accordance with the investment mandate to the Investment Manager; as such, the key decisions made by the Board in the ordinary course of business relate to the Company's strategy, stakeholder engagement and oversight of risk management.

These decisions are governed by the matters reserved for the Board and the terms of reference of the Board's committees. Ownership of ESG, including the oversight of climate-related risks and opportunities, is the responsibility of the Board, with the Board's committees delegating responsibility for ESG-specific items through the terms of reference as follows:

- Audit committee: those relating to controls and processes of material financial data, valuations and reporting, internal assurance, third party review of data and external reporting and metrics.
- Risk committee: those relating to the impact of identified and emerging risks, initial borrower screening, ongoing due diligence and investment monitoring.
- Management Engagement committee: those relating to service provider ongoing compliance with their internal policies and alignment with the Company's strategy.
- Remuneration and Nomination committee: those relating to the composition, director skills and shareholder proxy company engagement and reports.

Joanna Dentskevich is the Director responsible for ESG and further facilitates the development of the Company's ESG framework to ensure the Company's ESG focus remains current and is considered by the Board in their decisions, processes and policies. The Company's ESG framework is detailed further on page 40 and its ESG policy can be found on the Company's website.

The Investment Manager has over a decade of experience in identifying assets with inherent environmental and social benefits. Responsible Investment is at the core of the Group's investment management processes and is led by the investment team. These investment processes are overseen by the Responsible Investment committee, which reports to the board of the Investment Manager. Further information is provided on page 41.

When evaluating and approving new investments, the Investment Manager directly and/or indirectly addresses climate-related physical and transition risks and opportunities. The Investment Manager's investment committee reviews ESG impacts as part of the investment process. An ESG indicator dashboard has been developed to ensure consistent reporting to the Board for consideration as part of the quarterly reporting cycle.

The Investment Manager has continued to carry out a climate risk assessment for each of the Group's underlying assets to assess climate-related risks and opportunities across the portfolio. Further information is given on page 56. The Investment Manager also undertakes an annual data collection project to help understand ESG impacts and climate risk within the portfolio; further information on the data collection project can be found on pages 46 and 47. Data collection, verification and analysis is an ongoing process carried out by the Investment Manager and ensures that the Company's annual ESG reporting is up to date and relevant.

TCFD: Strategy

Physical risks

Through the climate risk assessment, the Investment Manager, based on current climate conditions, believes that the physical risk the portfolio is most exposed to arises from extreme weather events in the short, medium and long term. Time horizons have been defined as:

- short term: zero to three years;
- medium term: four to eight years; and
- long term: over eight years.

At this stage, the Investment Manager believes the main extreme weather event in the short term is flooding which may affect assets in the property and social infrastructure sectors that are reliant on physical premises located in areas that have a higher risk of flooding. The possible impact on the borrower in these cases might be increased costs arising from water damage, remediation, impact on operations and higher insurance premiums.

In the medium to long term, the Investment Manager believes that extreme weather events such as higher temperatures and water shortages may impact borrowers with loans associated with care homes and social housing where further installation of air conditioning units and the additional costs associated with operating these assets may impact operators' profitability. Higher temperatures may also impact the valuation of properties which are poorly insulated or not designed to withstand extreme weather events.

The majority of physical assets in the portfolio are located in the UK, in regions with no specific threat from earthquakes, storms or other natural disasters. Projects located in regions known for earthquake risk, storms or natural disasters such as those located in the USA, contain specific design features that have been incorporated to withstand the impacts.

Transition risks

The Investment Manager believes the main transition risks the portfolio may be exposed to in the short, medium and long term will arise from changes to climate-related government policy and regulation. The introduction of the Minimum Energy Efficiency Standards ("MEES") may impact some properties as it focuses on insulation and reduction of energy usage. Less modern properties with designs that currently do not comply with MEES may require further capital works to meet improved EPC ratings.

As the property sector within the portfolio mainly comprises short-dated loans across diversified geography and sub-sectors, the Investment Manager has identified areas of mitigation to the impact of such government policy and regulatory changes. New loans to projects within the property sector are more likely to support modern properties for which the design is more likely to comply with MEES.

The impact on the portfolio of physical and transition risks may result in a reduction in property values of older stock, leading to increased LTVs and increased credit risk due to operators' lower profitability, potentially impacting their ability to meet payments. However, the results from the first climate change impact assessment indicate that whilst there is some exposure to physical and transitional risks for certain assets, the impact and probability of occurrence overall is considered by the Investment Manager to be low and the financial impact in the context of the Group's diversified portfolio is likely to be immaterial.

As this was only the second year the Investment Manager has undertaken a detailed climate risk assessment and development work is continuing, the scope considered the impact of more extreme weather events but excluded consideration of a 2°C or lower scenario.

Sustainability continued

TCFD: Risk management



The way the Company manages risk, and the principal risks and uncertainties considered, are described on pages 66 to 72. The Board considers ESG risks, including those relating to climate change, to be a transverse risk managed within the existing risk categories identified in the Company's risk register.

The Board and each committee of the Board regularly review their terms of reference to ensure that ESG risks, including climate risk, remain incorporated into the governance framework of the Company. The key operating manual of the Company is also regularly reviewed to ensure the policies and procedures consider ESG and climate risk where necessary.

The Investment Manager directly and/or indirectly seeks to address climate-related risks and opportunities when evaluating and approving new investments. This includes the completion of a Responsible Investment checklist for each new investment. However, investment activity was intentionally limited this year, with capital resources reallocated to repay the RCF in full and to other means of providing shareholder value such as buying back shares. Given the diversity of sectors the Group invests in, the approach to assessing and measuring ESG risks (including climate risks) reflects the unique characteristics of each investment.

Ongoing due diligence is carried out during the life of each asset to identify any new risks and changes to existing risks, including changes to Government and industry legal and regulatory requirements and assessments, along with the impact of flooding and any other appropriate considerations.

Following investment, loan performance is monitored against the relevant covenants and information requirements that are contained within the terms of the loan agreement. The requirements are tailored to manage risks specific to each project and typically include financial, regulatory, operational and construction reporting, where relevant. Through the Responsible Investment checklist process, the Investment Manager seeks to identify ESG indicators to include in its reporting to enable it to monitor borrowers and inform the way investments are managed.

An ESG indicator dashboard has been developed to ensure consistent reporting to the Board for consideration as part of the quarterly reporting cycle.

Climate risk assessment

To understand the potential impact climate change will have on the portfolio, the Investment Manager has conducted a detailed portfolio-wide climate risk assessment on each of the 42 loans in the portfolio. The risk assessment considered nine risk factors associated with physical and transition risks deemed to be the most material to the overall portfolio. These were:

- Physical risks (events driven by a shift in temperatures and weather patterns): flooding; heat stress; water stress; fires and wildfires; and natural disasters.
- Transition risks (risks related to the transition to a low-carbon economy): policy or regulatory; technological; market; and reputational risks.

External and internal data points were used to assess the portfolio's exposure to changes to energy efficiency standards and to flooding. EPC ratings and flood risk data available for UK assets were obtained using databases provided by the UK Government.

The loan-by-loan assessment was undertaken by the Investment Manager's portfolio management team to consider the specifics of each investment and to understand the overall exposure to climate change and any mitigating factors. The results from the risk assessment will be used as part of decision-making in relation to portfolio management. This will help identify risk mitigation strategies with the borrower and to better inform the impact, if any, on the underlying borrower's cash flows. Furthermore, it will be used to assess how climate risk may impact the performance of the loan and ultimately the financial forecasts of the Company.

TCFD: Metrics and targets

The Company reports to stakeholders through its financial reporting and through the Investment Manager by way of quarterly updates. In turn, the Investment Manager provides regular reporting to the Board at its quarterly Board and committee meetings.

The Investment Manager provides regular updates on progress towards the Company's ESG framework which will be developed further, subject to the outcome of the Discontinuation Vote, to include how investment activities have incorporated ESG considerations, including the impact of climate risk, ESG metrics on fee incentive mechanisms, new transactions, due diligence issues raised on new transactions (identified in the Responsible Investment checklist) and ongoing monitoring.

Greenhouse gas emissions

As an externally managed investment company, the Company has no employees, does not own any property, and does not purchase electricity, heat, steam or cooling for its own use. It is therefore exempt from the Streamlined Energy and Carbon Reporting disclosure requirements relating to Scope 1 (direct) and Scope 2 (indirect) GHG emissions. However, to meet UK legislation targeting net-zero greenhouse gas emissions by 2050, the Company will need to begin reporting its Scope 3 emissions, which fall under two categories as defined by the GHG Protocol:

Category 1: Purchased goods and services

The emissions from services provided by the Investment Manager and the Administrator and emissions from travel of the Board are deemed to be the most material in the context of the Company's outsourced service model. The Board has elected not to disclose this information until further data points from the portfolio can be obtained and verified.

Category 15: Investments

The exercise to collect detailed data on the emissions of underlying projects has continued during 2023 and data coverage represents 56% of portfolio assets by value. The Company has therefore elected not to disclose this information this year.

The Investment Manager will continue to liaise with asset operators to improve and refine the availability of future ESG data which will be collected and reported on an annual basis in a continuation scenario. Further information on the data collection exercise can be found on pages 46 and 47.

The Board and the Investment Manager are committed to improving the Company's data capture and disclosure to help drive more consistent reporting across the industry. It is the Investment Manager's intention, in a continuation scenario, to develop the Company's approach to targets in the forthcoming year to enable more detailed reporting.

Stakeholders

The Board values the importance of maintaining a high standard of business conduct and stakeholder engagement and ensuring a positive impact on the environment in which the Group operates.

Stakeholders

The Company engages with its stakeholders in different ways. This section outlines the key stakeholder groups, the importance of engagement and how the Company and the Board interact. Stakeholders have been grouped into six key categories, with an overview of why and how the Company engages including, where relevant, key Board decisions which impact these groups and the ways in which the Board considers their interests during the year.

All Board discussions involve careful consideration of the longer-term consequences of any decisions and their implications for stakeholders. The Board values the importance of maintaining a high standard of business conduct and stakeholder engagement and ensuring a positive impact on the environment in which the Group operates.

Section 172:

Promoting the success of the Company

As a member of the AIC, the Company reports against the AIC Code on a comply or explain basis. Whilst the Company is not domiciled in the UK, by reporting against the AIC Code, the Company voluntarily meets any obligations in relation to the UK Code and specifically section 172 of the Companies Act 2006.

The Board of Directors consider, both individually and together, that they have acted in a way they consider, in good faith, is most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in section 172 of the Companies Act 2006) in the decisions taken during the year as set out below.



The interests of the Company's employees

The Company has no employees but has close working relationships with the employees of the Investment Manager and the Administrator to which it outsources its main functions.

Refer to stakeholder engagement section on pages 58 to 65 and governance section on pages 74 to 101.



The impact of the Company's operations on the community and the environment

The Company has an ESG policy and framework, as detailed further on page 40. The policy is based upon the PRIs to ensure alignment across its business and with stakeholders.

Refer to sustainability section on pages 38 to 57.



The need to foster the Company's business relationships with suppliers, customers and others

The Board has a close working relationship with all its advisers and regularly engages with all parties.

Refer to stakeholder engagement section on pages 58 to 65.



The desirability of the Company maintaining a reputation for high standards of business conduct

Under the leadership of the Chairman, the Board operates with core values of integrity and impartiality with an aim of maintaining a reputation for high standards in all areas of the business it conducts.

Refer to Board culture and purpose on page 81 of the corporate governance statement.



The need to act fairly between shareholders of the Company

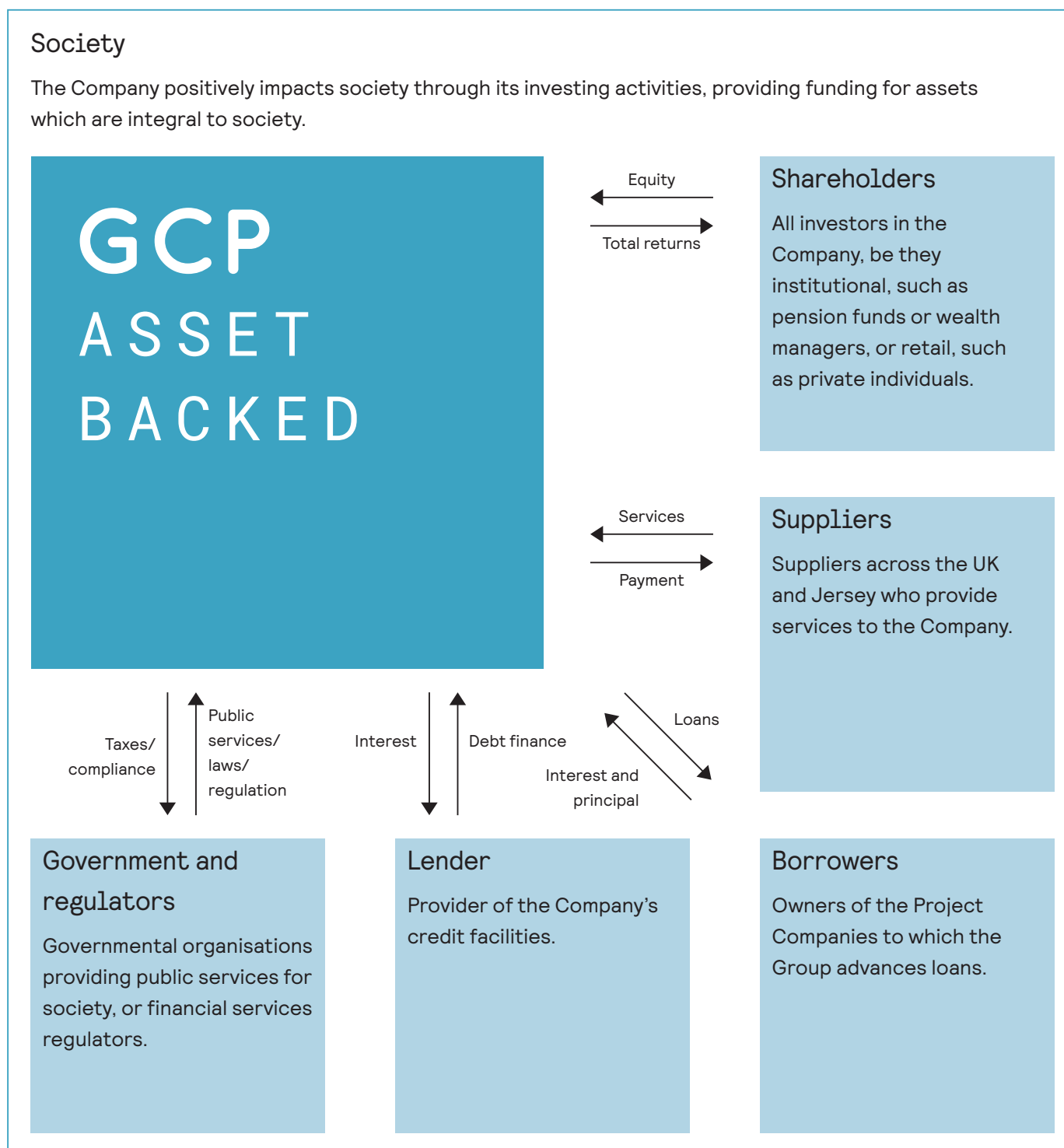
The Board actively engages with shareholders and considers their interests when setting the Company's future strategy.

Refer to stakeholder engagement section on pages 58 to 65.

Stakeholders continued

The stakeholder model below demonstrates how the Company interacts with all of its stakeholders.

Stakeholder model



Shareholders

All investors in the Company, be they institutional, such as pension funds or wealth managers, or retail, such as private individuals.

Why engage

Through the provision of capital, shareholders enable the Company to pursue its investment objective. In return, the Company generates earnings for shareholders and grows the capital value of the portfolio over the long term.

How the Company engages

The Company, primarily through its Investment Manager and Broker, engages in ongoing communication with its shareholders via market interactions, webinars and shareholder, analyst and marketing presentations.

Shareholder engagement is reported to the Board on a quarterly basis. Feedback obtained through this engagement is taken into consideration when setting the future strategy of the Company and Board decisions which may impact shareholders.

The Board encourages shareholders to attend and vote at the Company's general meetings so they may discuss governance and strategy and understand shareholders' issues and concerns. The Board and the Investment Manager are keen to engage with shareholders to address any questions or concerns they may have.

The Investment Manager has engaged with shareholders throughout the year by holding meetings, hosting webinars and portfolio updates for investors, including holding separate webinars to discuss the Scheme and other general matters.

The Board has engaged extensively with shareholders during the year to seek feedback on strategic initiatives and opportunities, as well as the overall future of the Company. Refer to page 62 for further details.

Stakeholders continued

Key Board decision: Strategic initiatives

Decision:

On 13 December 2023, the Board announced that it would commence a Strategic Review to consider how it may best deliver value to shareholders. Prior to this, the Board had considered:

- A proposed combination of the Company with GCP Infra. Whilst a number of shareholders expressed their support for the proposed combination, a significant minority of shareholders informed the Company they were not supportive. As a result of the feedback, the Board notified GCP Infra of its intention to cease discussions relating to the proposed combination and also announced that it will propose an ordinary resolution at the Company's AGM to be held in May 2024 that the Company continue in its present form¹.
- A non-binding proposal from a US-listed investment company (the "Possible Offeror") to acquire the entire issued share capital of the Company. The Board, having considered the proposal and taken advice from its financial adviser, Barclays, believed that the proposal undervalued the Company and its standalone prospects and would not be recommendable to shareholders. The Board therefore unanimously rejected the proposal, following which a second conditional and non-binding proposal was received from the Possible Offeror. The Board agreed to provide the Possible Offeror access to confirmatory due diligence. Prior to accessing such information, on 11 December 2023 the Possible Offeror notified the Company that it would be withdrawing its proposal.

Process:

Following a further announcement on 29 January 2024, the Board engaged extensively with shareholders in seeking feedback to inform its decision-making process for the Strategic Review.

As part of this process, the Board specifically sought shareholders' views in respect of:

- i) a Continuation¹;
- ii) an Orderly Realisation; and
- iii) a Potential Sale.

Outcomes:

Feedback on the future strategic direction of the Company was provided to the Board by shareholders representing a majority of the total voting rights in the Company. Whilst differing views were expressed by shareholders on the future of the Company, a majority indicated a preference for an Orderly Realisation or a Potential Sale. Further, whilst a minority of shareholders indicated a preference for Continuation, the Board believes that the likely scale and take-up of returns of capital that would be necessary to provide an exit for shareholders would be substantial and that, as a result, the Company would no longer be of a viable size to provide sufficient liquidity and scale.

Alongside shareholder feedback, the Board also considered the prevailing and persistent discount² to NAV at which the Company's shares have traded over the course of the past 18 months, the liquidity of trading in its shares, and the limited prospects for achieving greater scale in the foreseeable future and wider market conditions.

Accordingly, the Board has reached the conclusion that shareholder value will be best served by a proposed Orderly Realisation and return of capital.

Shareholders will be given the opportunity to vote on a discontinuation of the Company at the 2024 AGM, which will be presented as an ordinary resolution requiring a majority of those voting to vote in favour of discontinuation in order for the resolution to pass. The Board intends to recommend that shareholders vote in favour of the Discontinuation Vote.

In addition, and subject to the prior approval of the FCA, the Board intends to convene an EGM to be held immediately after the 2024 AGM at which it will seek shareholder approval for certain resolutions to facilitate the Orderly Realisation. Further information will be included in the Orderly Realisation Circular which will be published on 2 May 2024.

The Orderly Realisation will not result in a liquidation of the Company in the immediate future and the Board will seek to implement the Orderly Realisation in a manner that maximises value for shareholders.

1. The Company as currently constituted and with the same investment objective and policy.
2. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.

Suppliers

Suppliers across the UK and Jersey who provide services to the Company.

Why engage

The Company's suppliers include third party service providers engaged to provide corporate or administration services, in addition to the investment management services provided by the Investment Manager. These services are critical to the ongoing operational performance of the Group.

How the Company engages

The Board has a close working relationship with all its advisers and regularly engages with all parties. The Management Engagement committee regularly monitors the performance and reviews the terms of each service contract annually. To ensure suppliers meet the Company's high level of conduct, all suppliers are required to confirm on an annual basis, in the form of a questionnaire, that they have adequate policies and procedures in place for ensuring business continuity planning; cyber security and prevention of corruption and bribery.

The questionnaire covers policies and procedures in relation to ESG, compliance with the General Data Protection Regulation and MAR, as well as a requirement by service providers to rate their own service and the conduct of other service providers.

This informs decision making at Board level in regard to the continuing appointment of service providers. In December 2023, the annual Management Engagement committee meeting was held, with the committee reviewing the performance, and considering the continued appointment of the Company's service providers. Refer to page 83 for further information.

In addition, the Board typically attends the offices of the Investment Manager at least once a year to perform an oversight review and consider matters such as strategy, portfolio performance and principal risks.

Key Board decision:

Change in Broker

Decision:

On 16 October 2023, the Company announced the appointment of Barclays Bank plc (acting through its investment bank) as the Company's sole Broker.

Process:

The change followed a comprehensive review by the Board, through its Management Engagement committee, of the Company's corporate broking arrangements. The Board engaged with a selection of service providers who were requested to submit a proposal.

The Board considered the credentials of each service provider, their proposals and which appointment would be in the best interest of the Company and its stakeholders, taking into consideration the upcoming Discontinuation Vote at the 2024 AGM. This was supplemented by advice from the Investment Manager.

Outcomes:

The Board found that the experience within the sector as well as the strength of the overall team demonstrated by Barclays aligns with the Company and the period up to and following the Discontinuation Vote.

Therefore, Barclays were appointed as sole Broker with effect from 16 October 2023.

Stakeholders continued

Borrowers

Owners of the Project
Companies to which the Group advances loans.

Why engage

By engaging with borrowers and understanding their needs, the Group is able to offer bespoke lending solutions which reflect the contractual fundamentals and inherent risks of the underlying assets and cash flows. Borrower contact enables direct feedback and informs strategic decision making at Board level.

How the Company engages

The Investment Manager's designated portfolio monitoring team engages with borrowers on an ongoing basis. Engagement takes the form of regular interaction with borrowers. Visits to projects in the UK were undertaken by the investment and portfolio management teams in the year, covering 36% of the portfolio by value.

The Investment Manager reports to the Board on asset performance on a quarterly basis. The regular monitoring of information and financial covenant obligations is also carried out to ensure compliance with financial covenants to ensure the early identification of potential issues.

The Board engages with the Investment Manager with regard to 'conflicted investments', where the Investment Manager or any shareholders, directors or employees of the Investment Manager are directly or indirectly interested in any entity or asset in relation to the investment.

Lender

Provider of the Company's credit facilities.

Why engage

The Company's lender, RBSI, provides a credit facility used to make investments in accordance with the investment policy, access to which creates an efficient method of investing capital and minimises the effect of cash drag.

How the Company engages

The day-to-day management of the credit facility is delegated to the Investment Manager, who engages with the lender to ensure they remain fully informed of all relevant Company business. This high level of engagement supports the relationship with the lender.

The Investment Manager reports to the Board on a quarterly basis regarding current and future financing requirements, as well as the quantum and duration of the RCF. This information forms the basis of decision making at Board level. The RCF was fully repaid in December 2023 and is due to expire in August 2024.

Further information on the RCF is given in note 14 to the financial statements.

Government and regulators

Governmental organisations providing public services for society, or financial services regulators.

Why engage

Good governance and compliance with applicable regulations is vital in ensuring the continued success of the Company and the regimes within which it operates.

How the Company engages

The Board encourages openness and transparency and promotes proactive compliance with new regulation. The Company engages with local government and regulatory bodies at regular intervals and participates in focus groups and research projects where relevant.

The Company, through its Investment Manager and Administrator, files UK AIFM Regime and Jersey regulatory statistics on a quarterly basis and assists the JFSC in collecting data to conduct a national risk assessment of money laundering and terrorist financing threats to Jersey.

Government and regulatory policy inform strategic decision making at Board level with consideration given to the impact the Company has on the sector and vice versa.

During the year, the Investment Manager produced an Assessment of Value report for the Company which was prepared in accordance with the requirements of the FCA Consumer Duty. Although the Company is not required to comply with the requirements of the Consumer Duty, the Investment Manager believes that as a company listed on the LSE it is good practice to do so.

Society

The Company positively impacts society through its investment activities, which provide funding for assets which are integral to society.

Why engage

Through responsible investing, the Company can ensure the long-term success of not only its operations, but also of the environment in which it operates. As part of the investment process, ESG due diligence is carried out by the Investment Manager to ensure that sustainability and its impact on society is considered.

How the Company engages

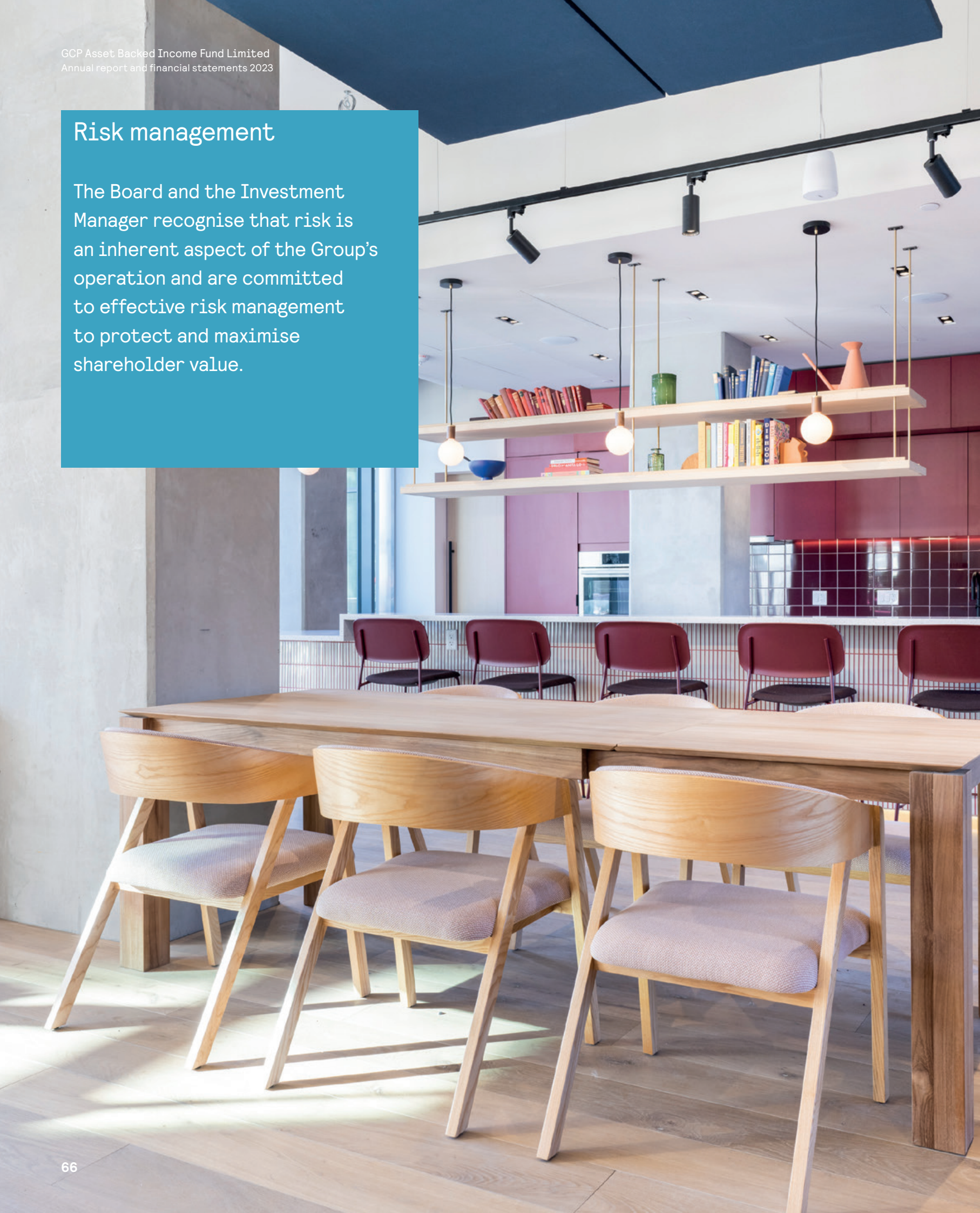
Indirectly, the Company engages with society through its social infrastructure investing, providing funding for housing for vulnerable adults, student accommodation, care for the elderly, nurseries and urban regeneration.

The Company reports on the benefits to society through its normal methods of shareholder engagement. Further information can be found in the sustainability section on pages 38 to 57.

The Company has published an ESG policy and framework in line with good governance and social responsibility. The policy can be found on the Company's website.

Risk management

The Board and the Investment Manager recognise that risk is an inherent aspect of the Group's operation and are committed to effective risk management to protect and maximise shareholder value.



Risk management strategy and risk appetite

The Board has the ultimate responsibility for risk management and internal controls within the Company. The Board and the Investment Manager recognise that risk is an inherent aspect of the Group’s operation and are committed to effective risk management to protect and maximise shareholder value. When setting the Company’s risk management strategy, the Board considers the nature of the risks the Company is willing to take and the appetite it has for those risks in order to achieve the Company’s strategic objective.

Risk management process

At least twice a year, the Board, with the assistance of the Risk committee, undertake a robust assessment of the principal and emerging risks facing the Company, including those that might threaten its business model, future performance, solvency and liquidity.

This assessment is supported by the Risk committee and Audit committee’s review of the effectiveness of the Company’s risk management process and internal control systems. This covers strategic, investment, financial, operational and financial crime risks facing the Company, as well as any emerging risks. Refer to the Risk committee report on pages 94 and 95 and the Audit committee report on pages 88 to 93 for further information.

In relation to the AIC Code, the Board is confident that the procedures the Company has in place are sufficient to ensure that the necessary monitoring of risks and controls was carried out throughout the year under review.

During the year and post year end, the Board continued to discuss with the Company’s key service provider on how their services comply with the Company’s policies, procedures and the terms of the service agreements to mitigate these risks. Subject to shareholders’ approval of the Discontinuation Vote, such policies and procedures will also be reviewed to ensure that they continue to support the monitoring of risks and controls during the Orderly Realisation. The implementation of any such recommendations arising from these reviews to enhance the control framework will be evaluated by the relevant Board committees and appropriate recommendations will be presented to the Board for its approval during 2024.

Role of the AIFM

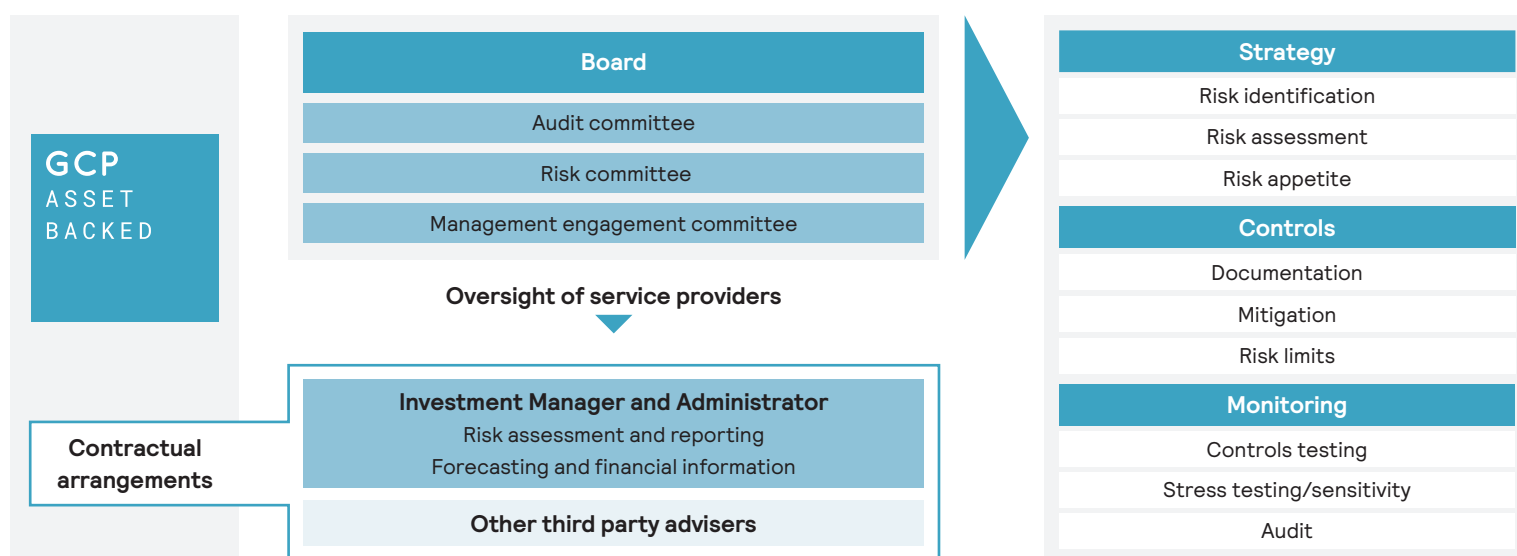
The Investment Manager has been appointed as AIFM to the Company since September 2015. The AIFM is required to operate an effective and suitable risk management framework to allow the identification, monitoring and management of the risks to which the AIFM and the AIFs under its management are exposed.

The AIFM’s permanent risk management function has a primary role alongside the Board in shaping the risk policy of the Company. In addition, it is responsible for risk monitoring and risk measuring to ensure that the level of risk remains within the Company’s risk profile and tolerance.

During the year, the Risk committee requested an analysis of the controls in place to ensure the AIFM was meeting its risk management obligations under AIFMD. Subject to shareholders’ approval of the Discontinuation Vote, the role of the AIFM in the Orderly Realisation and any necessary changes to its policies and procedures to support the identification, monitoring and management of risks will be reviewed by the Investment Manager with the Board.

In considering the principal risks and uncertainties and emerging risks that the Company faces, the Board has considered the impact of events post year end relating to the Board’s recommendation to shareholders to vote in favour of the Discontinuation Vote, and any changes that may be made to the investment objective and policy to facilitate an Orderly Realisation.

Risk management framework



Risk management continued

Principal risks and uncertainties

Principal uncertainties

The Board considers the principal uncertainties faced by the Company during the year to be as detailed below. The Board has determined that an additional uncertainty now exists.

Uncertainty 1: Discontinuation Vote

Post year end, following the Strategic Review, the Board reached the conclusion that shareholder value would be best served by an Orderly Realisation.

In order to effect these changes, which are conditional on the approval by shareholders of the Discontinuation Vote at the 2024 AGM, the Board is proposing to: (i) change the existing investment objective and policy of the Company, to adopt the revised investment objective and policy, which will provide for an Orderly Realisation; and (ii) adopt revised articles of association which will provide for a compulsory redemption mechanism to allow the Company to return capital to shareholders over time on a pro rata basis.

The ultimate decision by shareholders arising from the Discontinuation Vote, the resolutions to change the Company's investment objective and policy, and a Potential Sale is outside the control of the Directors and therefore creates a principal uncertainty as to the future of the Company. Further information is included in the Chairman's statement on pages 4 to 6.



Uncertainty 2: Geopolitical uncertainty

The Board considers the extensive macro-economic effects from geopolitical uncertainty due to the invasion of Ukraine and the Israel-Hamas war to be a principal uncertainty for the Company. These events continue to cloud the outlook for the global economy and exacerbate disruptions in supply chains, energy prices and market volatility, and have created inflationary pressure and investor unease. The Company is predominantly invested in the UK and has no investments in Ukraine, Russia, Belarus or the Middle East. Equally, no borrowers have been subject to any sanctions imposed due to the wars.




Principal risks

The Board considers the principal risks faced by the Company during the year, together with the potential effects, controls and mitigating factors, to be as detailed below. The Board has determined there now exists two new principal risks.

Category 1: Credit risk

Risk	Impact	How the risk is managed	Change in residual risk over the year
<p>Borrower default, loan non-performance and collateral risks</p> <p>Borrowers to whom the Group has provided loans default or become insolvent.</p>	<p>The success of the Group is dependent upon borrowers fulfilling their payment obligations when they fall due. Failure of the Group to receive payments or to recover part or all amounts owed together with potential additional costs incurred from the renegotiation and/or restructuring of loans can result in substantial irrecoverable costs being incurred. This could have a material adverse effect on the NAV of the Company and its ability to meet its stated target returns and dividend.</p>	<p>The Investment Manager continuously monitors the performance of the underlying assets and has in place a process for watchlist and problem loans, taking appropriate action where required. In addition to quarterly reporting to the Board, since the cessation of the Scheme on 18 September 2023, all amendments or extensions to existing facilities are considered on a case-by-case basis and require prior Board consent.</p>	<p> Increased</p> <p>Inflationary increases have created higher costs for borrowers, particularly operational businesses with staffing and energy expenditure. The Board and Investment Manager have continued to focus on the watchlist, problem and other loan assets during the year. At 31 December 2023, there were eight loans categorised as either watchlist or problem loans, together representing 16.2% of the portfolio by value. Further information can be found on pages 20 and 21 and the assessment of credit risk is disclosed in note 17.6.</p>
<p>Repayment risk (other than borrower default)</p> <p>Borrowers to whom the Group has provided loans are unable to meet contractual repayment other than occasioned by default or insolvency.</p>	<p>Due to the nature of the loans provided, it is not uncommon, in the normal course of business, for extensions to be requested by borrowers which, if not facilitated, would mean there is no guarantee that the contractual repayment profile may be met.</p>	<p>The Investment Manager continuously monitors the performance of the underlying assets and has in place a process for watchlist and problem loans, taking appropriate action where required. In addition to quarterly reporting to the Board, since the cessation of the Scheme on 18 September 2023, all amendments or extensions to existing facilities are considered on a case-by-case basis and require prior Board consent.</p>	<p> New</p> <p>As a result of the current high interest rate environment and the restriction on extensions and amendments to existing facilities, those borrowers who, in normal conditions, would seek an extension or amendment, are now seeking alternative refinancing in a challenging market that does not support asset sales in a timely manner. Further information can be found in note 17.6.</p>

Category 2: Economic risk



Risk	Impact	How the risk is managed	Change in residual risk over the year
<p>Property</p> <p>Loans made by the Group to projects involved in property or the development of property are indirectly exposed to the performance of the underlying real estate market in the relevant area.</p>	<p>If the market value of any property investments to which the Group has provided finance is found to be materially lower than assumed or projected, this may adversely impact the Group's ability to recover the value of its investments in the event of a borrower default or sale process.</p>	<p>Property exposure is diversified across assets located in the UK, Europe, Australia and the US, with an average LTV¹ of c.66%. Property valuations are required during the due diligence process, as well as throughout the life of the asset, as oftentimes there is diversification through multiple assets at a project level. Refer to the Investment Manager's report on page 27 for further information.</p>	<p> Increased</p> <p>In response to current levels of inflation and the potential of a broader economic recession reducing confidence in the market, a reduction in property values is being witnessed. During the year, the independent Valuation Agent has seen prime yields increase across several areas of the property sector and low transactional volumes.</p>
<p>Macro-economic</p> <p>Due to the nature and duration of the Company's investments, the prolonged current macro-economic environment may prevent the Company from achieving the risk return profile required by investors and/or its investment objective.</p>	<p>Continued high inflation, increases in energy prices and increases in interest rates could have a material adverse effect on (i) the underlying Project Companies, e.g. by reducing the value of underlying assets or stressing cash flow where revenue does not keep pace with rising costs, and (ii) the ability of the Company to meet its investment objective.</p>	<p>The portfolio is diversified across 20 asset classes and multiple geographies with partial inflation and/or interest rate protection through a number of different mechanisms on 52% of the portfolio by value. In addition, the weighted average loan life of five years allows for capital rotation over a relatively short period.</p>	<p> Increased</p> <p>During the year, credit markets and the listed investment company sector continued to experience rapid and significant pressure, driven in part by increased interest rates as central banks attempt to curb inflation. Whilst there have been no recent increases to central bank rates in countries where the Group has exposure and inflation is slowly abating, the impact of higher-for-longer interest rates and inflation on the Company's strategy and borrowers remains.</p>
<p>Valuation risk</p> <p>Due to the nature of the investments made by the Group, observable market data or comparable prices may not exist for some of the assumptions used in their valuation.</p>	<p>Uncertainty about valuation assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets in the portfolio in the future.</p>	<p>Discount rates applied to expected future cash flows are determined by the independent Valuation Agent who is engaged to provide at least semi-annual asset valuations which are reviewed and challenged by the Investment Manager and the Board. In addition, the Investment Manager, as part of its due diligence process, uses market-recognised professionals to provide initial valuations where possible.</p>	<p> Increased</p> <p>The impact of the changing macro-economic environment continues to present challenges to the judgements, assumptions and estimates in modelling future cash flows. In addition, the Orderly Realisation or Potential Sale may result in asset values not being realised in full. For further information, refer to pages 89 and 90.</p>

1. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.

Risk management continued

Principal risks and uncertainties continued

Category 3: Key resource risk

Risk	Impact	How the risk is managed	Change in residual risk over the year
<p>Reliance on key personnel at the Investment Manager</p> <p>The Company is dependent on key people within the Investment Manager to meet its investment objective.</p>	<p>An inability by the Investment Manager to retain and recruit the required level of personnel with the appropriate skills and experience may adversely impact its ability to service the needs of the Company.</p>	<p>The Company has entered into a contractual engagement with the Investment Manager. The performance of the Investment Manager is monitored by the Board along with the Company's other key service providers on an ongoing basis. The Investment Manager provides regular updates to the Board on its resourcing plans and has a competitive remuneration plan focused on key employees.</p>	<p> Increased</p> <p>The year saw the loss of one of the Company's fund managers and the Investment Manager's Chief Financial Officer. Whilst the Investment Manager has now successfully recruited two senior personnel to replace the departure, the Company's lead fund manager is the lead fund manager of GCP Infra and the CEO of the Investment Manager. In addition, as a result of the impact of the outcome of the Strategic Review, further demand will be placed on the Investment Manager; for example, negotiation of extensions or amendments on existing facilities and the provision of due diligence information to any prospective purchaser of the Company's issued share capital or assets will require increased resources from the Investment Manager. Refer to page 32 of the Investment Manager's report for further detail.</p>
<p>Reliance on third party service providers</p> <p>The Company has no employees and is reliant on the ability of its service providers and their internal controls for its successful functioning, including, but not limited to, successful implementation of the Company's investment objective, their ability to retain and recruit appropriately qualified and experienced staff, as well as compliance, cyber security, data privacy and business resilience.</p>	<p>Failure by a third party service provider to carry out its obligations in accordance with the terms of its appointment, or to exercise due skill and care, could have a material effect on the Group's performance, conduct, compliance or misrepresentation and damage to the reputation of the Company.</p>	<p>The performance of the Company's service providers is closely monitored by the Management Engagement committee, which also carries out an annual review to monitor service levels and ensure undertakings are met.</p> <p>Through the Audit committee and the Risk committee, the Company's internal controls are monitored to identify the root cause of any risks or issues in order to address and mitigate them.</p>	<p> Reduced</p> <p>During the year, the Board witnessed stability of staff at the Administrator and Company Secretary, although resource constraints have been noted at the Depository, the monitoring of which will be carried out by the Management Engagement committee.</p>


Category 4: Regulatory risk

Risk	Impact	How the risk is managed	Change in residual risk over the year
<p>Change in laws, regulation and/or policy</p> <p>The Company, its operations and the underlying Project Companies are subject to laws and regulations enacted by national and local governments.</p>	<p>Any change in the laws, regulations and/or Government policy affecting the Company or the underlying Project Companies may have a material adverse effect on the ability of the Company to successfully pursue the investment policy and meet its investment objective, which may impact the value of the Company.</p>	<p>The Company has a comprehensive compliance monitoring programme relevant to its operations that ensures compliance with developments and changes in legislation and regulation in the Channel Islands and the UK, including monitoring the impact of Brexit in jurisdictions in which the Group invests. The programme also monitors compliance with listing and FCA marketing rules.</p>	<p> Stable</p> <p>Whilst there have been no significant changes to, or new laws, regulations or policy at the Company level, the Board is cognisant of the impact at borrower level of the recent changes of law in Ireland restricting rent increases and EPC compliance at one of the Company's assets.</p>

Category 5: Execution risk

Risk	Impact	How the risk is managed	Change in residual risk over the year
<p>Reinvestment risk and availability of suitable investments</p> <p>The Company is not able to deploy capital in a timely manner or does not have the capital available to make investments.</p>	<p>Following the cessation of the Scheme on 18 September 2023, the Board announced that no new investment activity was planned ahead of the Discontinuation Vote at the 2024 AGM, with amendments and extensions of existing facilities considered on a case-by-case basis. Should the Discontinuation Vote be approved at the AGM, the Board intends to convene an EGM at which it will seek approval of certain resolutions to facilitate the Orderly Realisation. As a result, the Board considers this risk no longer applicable.</p>		

Category 6: Conflicts of interest

Risk	Impact	How the risk is managed	Change in residual risk over the year
<p>Investment Manager arrangements</p> <p>The Investment Manager may not be incentivised to achieve the objective of maximising shareholder returns in a timely manner.</p>	<p>The Investment Manager has full authority and discretion to act on behalf of the Company and is entitled to receive fees based on the prevailing NAV and the cost of each investment. The Investment Manager and its affiliates may serve as investment manager to other structures with similar investment objectives. Personnel at the Investment Manager may also have an interest in an entity or asset that the Group invests in. In addition, personnel at the Investment Manager and associated parties of the Investment Manager are shareholders of the Company.</p>	<p>The Investment Manager and the Company have policies and procedures in place to address potential conflicts including prior approval and consent from the Board and any conflicts that may arise from previous or current employment.</p>	<p> New</p> <p>In order to manage potential conflicts of interest arising since the cessation of the Scheme and, post year end, the Strategic Review which recommended that shareholders vote in favour of the Discontinuation Vote, the Investment Manager was instructed not to make any new investments, with all extensions or amendments requiring prior Board consent. In addition, should the Discontinuation Vote pass, to align interests, any changes to the investment policy will trigger a revision to the investment management agreement.</p>

Risk management continued

Principal risks and uncertainties continued

Emerging risks

Emerging risks include trends which are characterised by a high degree of uncertainty in terms of their occurrence, probability and potential impact. As part of the Company's risk management processes, emerging risks are considered during the formal reviews of the Company's risks, described on page 67 and in the Risk committee report on pages 94 and 95. As a result of the potential changes required to the articles and investment objective and policy to facilitate the Orderly Realisation should the Discontinuation Vote pass (the "Proposals"), the Board believes there now exists new emerging risks relating to the Proposals which will be included in the Orderly Realisation Circular to be published on 2 May 2024.

ESG risks

The Board considers ESG risks, including those relating to climate change, to be a transverse risk, managed within the existing risk categories identified in the Company's risk register.

The Investment Manager carries out a climate risk assessment for each underlying portfolio asset to assess the actual and potential impacts of climate-related risks and opportunities across the portfolio. Further information is given on page 56. Based on the climate risk analysis undertaken, the Investment Manager does not currently propose to make any changes to financial forecasts due to climate risk.

Going concern

Assessment

The Directors have assessed the financial prospects of the Company for the foreseeable future, which includes consideration of the liquidity of the Group's investment portfolio and the Company's financial position in respect of its level of cash as well as the Investment Manager's forecasts of future cash flows, borrowing requirements and future investment commitments. The assessment was made for a period of at least twelve months from the date the financial statements were approved, and concluded with an assessment of the Company's ability to continue as a going concern.

The scope of the Directors' assessment, which was performed with the Investment Manager, acknowledges that, conditional on the approval by shareholders of the Discontinuation Vote at the AGM on 20 May 2024, the Board is proposing an EGM of the Company to be held on the same day at which shareholders will vote on the proposals to: (i) change the existing investment objective and policy of the Company, and to adopt the revised investment objective and policy, which will provide for an Orderly Realisation; and (ii) adopt revised articles of association which will provide for a compulsory redemption mechanism to allow the Company to return capital to shareholders over time on a pro rata basis.

The specific wording of the resolutions referred to above will be confirmed in the Company's AGM and Orderly Realisation Circular, which will be published on 2 May 2024.

The going concern assessment has considered the Investment Manager's detailed analysis of operational cash flows under two scenarios:

1. the continuation of the Company's existing investment objective and policy, with anticipation of sustaining the Company's existing dividend policy, and flexed for both contractual repayments of loans within the Company's investment portfolio and assumptions of early and late redemptions of contractual payments that take into account the Investment Manager's views; and
2. the discontinuation of the Company's existing investment objective and policy and the Orderly Realisation in a manner that takes account of early and late redemptions of contractual payments in accordance with the Investment Manager's views. This scenario assumes that the Company will not be liquidated in the immediate future and the Board will seek to implement the Orderly Realisation in a manner that maximises shareholder value.

After making enquiries of the Investment Manager regarding the maturity profile of the investment portfolio and the forecasted cash flows for the above scenarios, and having reassessed the principal risks, the Directors are satisfied that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date on which the annual report is approved.

Material uncertainty

The possibility of shareholders approving the Discontinuation Vote and/or the resolutions to change the Company's investment objective and policy to pursue a strategy for an Orderly Realisation of the Company's portfolio does not change the Directors' view that the Company has adequate financial resources to continue in operational existence and meet all liabilities as they fall due for a period of at least twelve months. The Directors' note that the ultimate decision regarding the future state of the Company is outside the control of the Directors' and will be known only after the 2024 AGM and the proposed EGM. The uncertain future outcome of the 2024 AGM and the proposed EGM and the impact this has on the Company's future state indicates that a material uncertainty exists that may cast significant doubt over the Company's ability to continue as a going concern.

Going concern conclusion

Notwithstanding this uncertainty, and based on the above assessment, the Directors have concluded that the financial statements should continue to be prepared on a going concern basis and the financial statements have been prepared accordingly.

Viability assessment

The Board regularly reviews risks that might threaten its strategy. The Board also assesses the Company's policies and procedures for monitoring, managing and mitigating its exposure to these risks. The Directors have carried out a robust assessment of each of the Company's risks, including principal risks that threaten its business model, future performance, solvency or liquidity, uncertainty, as detailed on pages 68 to 71 and, through stress testing, as described below. The Board has also assessed the prospects of the Company over a longer period than the twelve months required by the going concern provision.

Stress testing

The Investment Manager has prepared cash flow forecasts which were challenged and approved by the Directors, including a stressed cash flow downside scenario. In order to analyse the effect of the principal risks and uncertainties on the Company's net cash flows, key financial ratios, viability and dividend cover, the Investment Manager has stress tested the Company's financial model by flexing a number of key assumptions used to model the impact of plausible scenarios, including:

- significant reduction of 38% of interest income received, based on the Investment Manager's analysis of downside probabilities of default and recovery rate assumptions;
- borrower default probabilities by sector and recovery rates of 66% for senior loans and 33% for subordinated loans;
- cash requirements arising from maintaining FX hedges in a downside FX scenario, calculated at a 95% confidence level;
- increases in the Company's operating expenses of 25%;
- a combined scenario with a combination of the factors described above; and
- impact on the portfolio of downside stress tests on a sector-by-sector basis.

The Investment Manager also ran further analysis of operational cash flows under the following:

- a Continuation; and
- an Orderly Realisation.

The Investment Manager believes that the above scenarios represent a robust sensitivity analysis. The Company's principal activity is investing in loans to third parties supported by the value of physical assets and/or contracted cash flows. The Company is reliant on the performance of interest and principal repayment obligations to meet its overheads, service its borrowings and pay discretionary dividends. The Orderly Realisation will not result in the liquidation of the Company in the immediate future and the Board will seek to implement the Orderly Realisation in a manner that maximises value for shareholders.

Time period

The Board has determined that a five year period is an appropriate period over which to provide its viability statement. The weighted average term of the loans in the investment portfolio is five years and in the view of the Board and the Investment Manager, financial forecasts that support the analysis are subject to the outcome of the Discontinuation Vote which makes the impact beyond a five year term difficult to assess.

In addition, the extent to which macro-economic, political, social, technological and regulatory changes beyond a five year term may have an adverse impact on the Company is difficult to forecast. The viability assessment involved an evaluation of the potential impact of the occurrence of these risks on the Company through the use of stress testing as detailed above.

Conclusion

Based on the viability assessment and stress testing performed on the Company's prospects, the Directors confirm they expect the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period from their assessment to 31 December 2028.

Approval of strategic report

The strategic report has been approved by the Board and is signed on its behalf by the Chairman.

Alex Ohlsson

Chairman

24 April 2024

Governance

What's in this section

Board of Directors

Pages 76 and 77

The Investment Manager

Pages 78 and 79

Board leadership and purpose

Pages 80 and 81

Division of responsibilities

Pages 82 to 84

Composition, succession and evaluation

Pages 85 to 87

Audit, risk and internal control

See the Audit committee report on pages 88 to 93,
the Risk committee report on pages 94 and 95,
risk management disclosures on pages 66 to 73 and the
financial statements on pages 102 to 138

Remuneration

See the Directors' remuneration report and policy on pages 96 to 99

Directors' report

Pages 100 and 101



Board of Directors

The Directors are responsible for the effective stewardship of the Company's activities in order to ensure its long-term success in the interest of stakeholders.



Alex Ohlsson

Chairman

Alex Ohlsson, a Jersey resident, is the managing partner of the law firm Carey Olsen, and is recognised as an expert in corporate and finance law in Jersey with a particular focus on international real estate finance and structures. Mr Ohlsson joined Carey Olsen in 1991, became a Jersey solicitor in 1994 and an Advocate of the Royal Court of Jersey and a partner of Carey Olsen in 1995. He was educated at Queens' College, Cambridge, where he obtained an MA (Hons) in Law. Mr Ohlsson served as the independent chairman of the States of Jersey's audit committee from 2009 until 2018. He is an advisory board member of Jersey Finance, Jersey's financial services promotional body. He acts as a non-executive director of a number of companies. He is also chairman of the LSE Main Market listed company Foresight Solar Fund Limited.

Skills and experience:

Substantial board level and legal experience in the corporate and finance sectors in Jersey.

Date of appointment:

14 September 2015



Joanna Dentskevich

Senior Independent Director and chair of the Risk committee

Joanna Dentskevich, a Jersey resident, has over 30 years of risk, finance and investment banking experience gained in leading global banks worldwide, alternative investments and the offshore funds industry. Previously, she was a director at Morgan Stanley heading up its Global Customer Valuation Group, a director of risk at Deutsche Bank and chief risk officer of a London-based hedge fund. Mrs Dentskevich has a BSc (Hons) in Maths and Accounting. Mrs Dentskevich is also chair of the board of the LSE listed company EJV Investments Limited.

Skills and experience:

Substantial relevant risk, finance and board level experience in the investment sector.

Date of appointment:

7 September 2015



Colin Huelin FCA

Chair of the Audit committee

Colin Huelin, a Jersey resident, graduated in mechanical engineering with a first class honours BSc degree and Diploma at Southampton University in June 1982. He completed his graduate management and monitored professional development scheme with Shell UK and the Institute of Mechanical Engineers in 1986. Mr Huelin qualified as a chartered accountant with Ernst & Young in 1989 and was appointed finance director for Computer Patent Annuities (“CPA”) in February 1990. He was appointed CEO for CPA in 1995. In November 1998, he joined Abbey National Offshore as head of financial planning, was promoted to finance director in 2003 and then managing director of Santander Private Banking in Jersey in November 2007, a position he held until 31 May 2015.

Skills and experience:

Substantial board level and financial experience in the banking and private sectors in Jersey.

Date of appointment:

7 September 2015



Marykay Fuller

Chair of the Management Engagement committee and the Remuneration and Nomination committee

Marykay Fuller, a UK resident, is a banking and finance professional with 30 years’ experience in debt and equity markets, working with a broad range of businesses across a variety of jurisdictions including the UK, US, Europe, South America and Asia. Most recently, she was a senior deal advisory partner at KPMG LLP where she also represented the firm on the board of the trade group, British American Business. Ms Fuller is currently the chair of Intu Milton Keynes Limited and the senior independent director of the UK Civil Aviation Authority, where she is a member of the audit committee and sits on the CAA International management board. She is the chair of the Air Travel Trust, is a non-executive director at TDBico, the parent company of Tilbury Douglas, and serves on the Alumni Advisory Board of Heinz College, Carnegie Mellon University in the US.

Skills and experience:

Substantial business and debt experience across a variety of jurisdictions.

Date of appointment:

6 November 2019

The Investment Manager

The Board of Directors has appointed the Investment Manager to provide day-to-day investment management services to the Group.

Investment team



Philip Kent

Chief Executive Officer

Philip Kent is a director of the Investment Manager and acts as co-fund manager for the Company.

Background:

Mr Kent joined Gravis from Foresight Group, where he was responsible for investments in the waste and renewables sectors, including large waste wood combustion projects and a pipeline of anaerobic digestion projects across the UK. He has been involved in the energy sector for over ten years, working initially as a consultant within PA Consulting's energy practice, focusing on energy markets and energy asset valuations. In 2008, he moved to Gazprom Marketing and Trading, working in risk management across a number of commodities before moving into the clean energy team.

Skills and experience:

Extensive experience in the infrastructure sector, including energy markets, asset valuations and renewables transactions.



Anthony Curl

Chief Investment Officer

Anthony Curl is Chief Investment Officer at the Investment Manager.

Background:

Mr Curl joined Gravis from Alpha Real Capital, where he was co-head of long income, managing several investment teams as well as serving as a member of the investment committee. Having started his career in banking, Mr Curl has worked at asset managers such as BlackRock. He has also worked in the insurance sector as portfolio manager of Friends Life's annuities portfolio.

Skills and experience:

Significant experience across a range of public and private asset classes, including real assets and credit.



Albane Poulin

Head of Private Credit

Albane Poulin is Head of Private Credit at the Investment Manager.

Background:

Ms Poulin joined Gravis from abrdn, where she was head of European private placements, responsible for the origination and underwriting of new transactions, as well as monitoring existing private placement investments. She was also the lead fund manager on a number of multi-sector private credit funds investing in a range of private credit asset classes, including private placement, infrastructure loans and commercial real estate debt. She has also worked as a credit analyst at Insight Asset Management covering utilities and transportation.

Skills and experience:

Substantial experience in credit markets, with a focus on private credit and asset backed securities.

Portfolio administration



Luther Ward-Faint
Associate Director



Finn Donahoe
Portfolio manager



Tristan Jackson
Portfolio Manager



Kate Arnold
Portfolio Manager

Financial and corporate advisory



Justyna Kolarovic
Portfolio Administrator



Iryna Hanbury
Portfolio Administrator



Chloe Marlow
Director of Fund Finance
and Operations



Sarah Bowe
Head of Compliance and Risk



Alethea Nugent
Senior Compliance Adviser



William Parry-Jones
Fund Financial Controller



Martie Chawla
Fund Financial Controller



Mary Tiernan
Investor Reporting Associate

Board leadership and purpose

Corporate governance statement

I am pleased to present the Company's corporate governance statement for the year ended 31 December 2023.



Alex Ohlsson
Chairman

Introduction from the Chairman

In this corporate governance statement, the Company reports on its compliance with the AIC Code, sets out how the Board and its committees have operated during the year and describes how the Board exercises effective stewardship over the Company's activities for the benefit of its members as a whole.

The Board recognises the importance of a strong corporate governance culture and has established a framework for corporate governance which it considers to be appropriate for the Company's business. All Directors contribute to Board discussions and debates. The Board believes in providing as much transparency for shareholders as is reasonably possible.

The AIC Code

As a member of the AIC, the Company reports against the principles and provisions of the AIC Code.

The Board has considered the principles and provisions of the AIC Code. The AIC Code addresses 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 AIC Code can be found on the AIC website at www.theaic.co.uk. The AIC Code includes an explanation of how it adapts the principles and provisions set out in the UK Code to make them relevant for investment companies. The UK Code can be found on the FRC website at www.frc.org.uk.

The Board considers that reporting against the principles and provisions of the AIC Code, which has been endorsed by the FRC and supported by the JFSC, provides better and more relevant information to shareholders.

Statement of compliance with the AIC Code

The Board has made the appropriate disclosures in this report to ensure that the Company meets its continuing obligations. It should be noted that, as an investment company, most of the Company's day-to-day responsibilities are delegated to third party service providers. The Company has no employees and the Directors are all non-executive, therefore not all of the provisions of the UK Code are directly applicable to the Company. The Board considers that the Company has complied with the principles and provisions of the AIC Code.

The Board

At 31 December 2023, the Board comprised four Directors, all of whom are non-executive and are considered independent. Biographical details of the Directors are shown on pages 76 and 77.

Under the leadership of the Chairman, the Board is responsible for the long-term success of the Company. It provides overall leadership, sets the strategic aims of the Company and ensures that the necessary resources are in place for the Company to meet its objectives and fulfil its obligations to shareholders within a framework of high standards of corporate governance and effective internal controls. The Board has overall responsibility for the Company's investment policy, investment strategy and activities, including the review of investment activity and performance and internal controls of the Investment Manager.

Matters reserved for the Board

The Board has approved a formal schedule of matters reserved for its approval which is available on the Company's website and upon request from the Company Secretary. The principal matters considered by the Board during the year included:

- the declaration of dividends;
- the interim and annual financial statements;
- the Company's annual expenditure budget;
- the Strategic Review, the Scheme and other strategic initiatives, including potential mergers and offer proposals;
- the RCF;
- share buybacks;
- capital allocation;
- recommendations from its committees; and
- amendments and extensions of facilities to existing borrowers. As previously announced, no material amendments or extensions of facilities to existing borrowers will be made ahead of the Discontinuation Vote at the 2024 AGM without the Board's prior consent. A procedure was put in place during the year between the Board and the Investment Manager to manage this process.

Culture and purpose

The Chairman, Alex Ohlsson, leads the Board and is responsible for its overall effectiveness in directing the Company. He demonstrates objective judgement, promotes a culture of openness and debate and facilitates constructive Board relations and the effective contribution of all Directors. In liaison with the Company Secretary, he ensures the Directors receive accurate, timely and clear information. The Directors are required to act with integrity, lead by example and promote this culture within the Company.

The Board seeks to ensure the alignment of its purpose, values and strategy with this culture of openness, debate and integrity through ongoing dialogue and engagement with its service providers, principally the Investment Manager. The culture of the Board is considered as part of the annual performance evaluation process which is undertaken by each Director. The culture of the Company's service providers, including their policies, practices and behaviour, is considered by the Board as a whole during the annual review of the performance and continuing appointment of all service providers.

Division of responsibilities

The Board is responsible for the effective stewardship of the Company's affairs, including corporate strategy, corporate governance, risk management and overall investment policy.

The Board

Purpose:

Responsible for the long-term success of the Company.

Provides overall leadership, sets out the strategic aims of the Company and ensures that the necessary resources are in place for the Company to meet its objective and fulfil its obligations to shareholders within a framework of high standards of corporate governance and effective internal controls.

Composition at 31 December 2023:



Chairman: Alex Ohlsson



Joanna Dentskevich



Colin Huelin FCA



Marykay Fuller

Board committees

Audit committee

Purpose:

Ensures that the Company's financial performance is properly monitored, controlled and reported, in addition to engaging with the Company's external Auditor.

Management Engagement committee

Purpose:

Reviews the performance and continuing appointment of the Investment Manager and other service providers.

Remuneration and Nomination committee

Purpose:

Considers appointments to the Board and its individual committees, makes recommendations with regard to changes, maintaining a balanced and effective Board and reviewing Directors' remuneration.

Risk committee

Purpose:

Reviews, monitors and assesses the risks the Company is exposed to, its risk appetite and the effectiveness of the risk management framework.

Composition at 31 December 2023

Chair: Colin Huelin FCA
Joanna Dentskevich
Marykay Fuller

See Audit committee report on pages 88 to 93.

Chair: Marykay Fuller
Joanna Dentskevich
Alex Ohlsson
Colin Huelin FCA

Chair: Marykay Fuller
Joanna Dentskevich
Alex Ohlsson
Colin Huelin FCA

See Remuneration and Nomination committee report on pages 85 to 87.

Chair: Joanna Dentskevich
Alex Ohlsson
Colin Huelin FCA
Marykay Fuller

See Risk committee report on pages 94 and 95.

The terms of reference of the Board committees can be found on the Company's website.

Chairman and Senior Independent Director

The Chairman, Alex Ohlsson, is deemed by his fellow independent Board members to be independent in character and judgement and free of any conflicts of interest.

He considers himself to have sufficient time to spend on the affairs of the Company. He has no significant commitments other than those disclosed in his biography on page 76. The Chairman's independence has previously been noted by Institutional Shareholder Services, a proxy adviser which publishes voting recommendations for its clients in respect of listed issuers, due to his position as managing partner of Carey Olsen, the Company's advisers on Jersey law. The relationship between the Company and Carey Olsen is not material in nature and is not considered to present a conflict of interest. The fees paid to Carey Olsen in the financial year ended 31 December 2023 represented 0.18% of the total expenses of the Company. Furthermore, the Company and Carey Olsen, a firm of over 50 partners, maintain procedures to ensure that the Chairman has no involvement in either the decisions concerning the engagement of Carey Olsen or the provision of legal services to the Company.

Joanna Dentskevich is Senior Independent Director of the Company. She acts as a sounding board for the Chairman, meets with major shareholders as appropriate, provides a channel for any shareholder concerns regarding the Chairman and takes the lead in the annual evaluation of the Chairman by the Directors.

In the event the Company experiences a period of distress, the Senior Independent Director would work with the Chairman, the other Directors and shareholders to resolve any issues

Meetings

The Board holds meetings on a quarterly basis and additional meetings are held when necessary. The number of scheduled meetings of the Board and committees held during the year and the attendance of individual Directors are shown below:

	Quarterly Board		Audit		Risk	
	Number entitled to attend	Number attended	Number entitled to attend	Number attended	Number entitled to attend	Number attended
Directors						
Alex Ohlsson	4	4	—	—	4	3
Joanna Dentskevich	4	4	4	4	4	4
Colin Huelin FCA	4	4	4	4	4	4
Marykay Fuller	4	4	4	4	4	4

Mrs Dentskevich, having served almost nine years on the Board, does not intend to seek re-election as a non-executive Director of the Company at the 2024 AGM. The Board will review the position of Senior Independent Director once the new Director is appointed and make appropriate changes as required.

A schedule of responsibilities of the Chairman and the Senior Independent Director is available on the Company's website.

Committees

At the year end, the structure included an Audit committee, a Risk committee, a Management Engagement committee and a Remuneration and Nomination committee. The terms of reference for each of the committees are available on the Company's website or upon request from the Company Secretary.

Audit committee

The membership and activities of the Audit committee are described in its report on pages 88 to 93.

Risk committee

The membership and activities of the Risk committee are described in its report on pages 94 and 95.

Management Engagement committee

The Management Engagement committee comprises all Directors. It meets at least once a year to consider the performance of the Company's key service providers, including the Investment Manager, the terms of their engagement, remuneration and their continued appointment.

During the year, the Board, through its Management Engagement committee, reviewed the services of the Broker and, as a result, Barclays Bank plc (acting through its investment bank) was appointed as the Company's sole Broker on 16 October 2023.

Following the committee's assessment of the Company's third party service providers, it was recommended to, and approved by, the Board that the third party service providers be retained.

Subject to the Discontinuation Vote, it is the committee's current intention that the Investment Manager is retained to provide investment management services in connection with the Orderly Realisation, subject to revised terms of the Investment Manager agreement. The committee considers the Investment Manager to be best placed to provide such services taking into account its knowledge and experience of the Company's investment portfolio.

To this effect, the committee has commenced discussions with the Investment Manager in respect of proposals for the provision of investment management services during the Orderly Realisation under revised terms that seek to incentivise the Investment Manager to achieve the objective of maximising shareholder returns in a timely manner.

Remuneration and Nomination committee

The membership and activities of the Remuneration and Nomination committee are described in its report on pages 85 to 87.

Division of responsibilities continued

Meetings continued

	Management Engagement		Remuneration and Nomination	
	Number entitled to attend	Number attended	Number entitled to attend	Number attended
Directors				
Alex Ohlsson	2	2	6	6
Joanna Dentskevich	2	2	6	6
Colin Huelin FCA	2	2	6	6
Marykay Fuller	2	2	6	6

During the year, 16 additional Board meetings were held. These meetings were in respect of:

- share buybacks;
- strategic initiatives, including mergers and offer proposals;
- the Strategic Review;
- extension of the RCF;
- changes to the key person within the investment management agreement;
- capital allocation;
- review and consideration of the going concern and viability assessment prepared by the Investment Manager; and
- approval of the half-yearly and annual financial statements.

Directors are encouraged to give the chair their views and comments on matters to be discussed in advance when they are unable to attend a meeting. In addition to their meeting commitments, the non-executive Directors liaise with the Investment Manager when required and maintain regular contact outside the Board meeting schedule.

At each Board and committee meeting, the Directors follow a formal agenda, circulated in advance by the Company Secretary, which may include a review of the Group's investments and associated matters such as gearing, dividend policy, asset and capital allocation, risks, marketing and investor relations, economic and sector issues, regulatory changes and corporate governance best practice. The Company's service providers also provide the Board with relevant information to support each formal agenda. The Board considers the Company's investment policy, objective and strategy in these meetings.

Company Secretary

The Board has access to the Company Secretary to advise on governance and day-to-day administrative matters. The Company Secretary is responsible for ensuring the Board receive the timely delivery of information and reports which the Directors require and that the statutory obligations of the Company are met.

Market Abuse Regulation

Following the implementation of MAR on 3 July 2016, the Board formally adopted revised procedures in relation to the management, identification and disclosure of inside information and share dealing in accordance with MAR.

Anti-bribery and tax evasion

The Company has developed appropriate anti-bribery policies and procedures. The Company has a zero-tolerance policy towards bribery and is committed to carrying out its business fairly, honestly and openly.

The Company does not tolerate tax evasion in its business. The Company complies with the relevant UK law and regulation in relation to the prevention of facilitation of tax evasion and supports efforts to eliminate the facilitation of tax evasion worldwide. The Company works to make sure its stakeholders share this commitment.

UK AIFM Regime

The Company is classed as an externally managed AIF under the UK AIFM Regime. The Board has appointed the Investment Manager as the authorised AIFM to the Company and Apex Financial Services (Corporate) Limited as the Company's Depositary under the UK AIFM Regime.

AIFM remuneration

The Investment Manager is authorised as an AIFM by the FCA under the UK AIFM Regime. The Company has provided disclosures on its website incorporating the requirements of the UK AIFM Regime.

The total remuneration paid to the Investment Manager by the Company is disclosed in note 18 to the financial statements.

MiFID II

The ordinary shares and C shares (while in issue) of the Company are considered 'non-complex' in accordance with MiFID II.

Non-mainstream pooled investments

The Board notes the rules of the FCA on the promotion of non-mainstream pooled investments.

The Board confirms that it conducts the Company's affairs, and intends to continue to conduct its affairs, so the Company's shares will be 'excluded securities' under the FCA's rules. This is on the basis that the Company would qualify for approval as an investment trust by the Commissioners for HM Revenue and Customs under Sections 1158 and 1159 of the Corporation Tax Act 2010 if resident and listed in the UK. Therefore, the Company's shares will not amount to non-mainstream pooled investments. Accordingly, promotion of the Company's shares will not be subject to the FCA's restriction on the promotion of non-mainstream pooled investments.

Composition, succession and evaluation

Remuneration and Nomination committee report

I am pleased to present the Remuneration and Nomination committee report for the year ended 31 December 2023.



Marykay Fuller
Chair of the Remuneration
and Nomination committee

Committee

At 31 December 2023, the committee comprised all four Directors of the Company, all of whom are considered independent.

The committee met six times during the year. A copy of the terms of reference within which the committee operates is available on the Company's website or from the Company Secretary upon request.

Board composition

The Board believes that it and its committees have an appropriate composition and blend of skills, experience, independence and diversity of backgrounds to discharge their duties and responsibilities effectively. The Board is of the view that no one individual or small group dominates decision making. The Board, via its Remuneration and Nomination committee, keeps its membership, and that of its committees, under review to ensure that an acceptable balance is maintained, and that the collective skills and experience of its members continue to be refreshed.

Directors' attendance at all committee meetings held during the year and their relevant experience is detailed on pages 83 and 84 and 76 and 77 respectively.

Induction of new Directors and training

The Chairman, in conjunction with the Company Secretary, ensures that all new Directors receive a full, formal and tailored induction on joining. An induction pack is provided to new Directors containing relevant information about the Company, its constitutional documents, terms of reference, policies, processes and procedures. New Directors meet with relevant persons at the Investment Manager and the Chairman provides guidance and mentoring as appropriate. A programme of induction training is agreed with each new Director.

The Directors are encouraged to keep up to date and attend training courses on relevant matters. The Company has a continuing professional development policy which is reviewed annually.

Independence

The committee has reviewed the conflicts, relationships, other positions and tenure of all the Board members and continues to be satisfied that no material interests exist which would impact the ability of each Director to exercise independent judgement.

Accordingly, the Board considers all Directors on the Board to be independent in character and judgement and entirely independent of the Investment Manager. The Directors' conflicts of interest are detailed in note 18 to the financial statements.

Composition, succession and evaluation continued

Remuneration and Nomination committee report continued

Tenure

The Board's policy regarding tenure of service, including in respect of the Chairman, is that any decisions regarding tenure will balance the need to provide and maintain continuity, knowledge, experience and independence, against the need to periodically refresh the Board composition to maintain an appropriate mix of the required skills, experience, age and length of service.

The Board does not consider that lengthy service in itself necessarily undermines a Director's independence nor that each Director, including the Chairman, should serve for a finite fixed period.

The appointment date of each Director is shown on pages 76 and 77. In October 2024, three of the Company's Directors will have served on the Board for a period of nine years. In light of the outcome of the Strategic Review, Joanna Dentskevich and Colin Huelin, each having served almost nine years, do not intend to seek re-election as non-executive Directors of the Company at the 2024 AGM.

Succession

As a result of the vacancies created by Mrs Dentskevich and Mr Huelin leaving the Board in May 2024, the Company is in the process of recruiting a new Jersey-based independent non-executive Director to join the Board. The recruitment and selection process are expected to conclude before the posting of the notice of the Company's AGM on 20 May 2024. The Board has engaged Maven Partners, an independent consultant with no connection to the Company, its Directors or the Investment Manager, for the recruitment process.

The appointment is subject to the approval of the JFSC and shareholder approval at the 2024 AGM. Subject to such approvals, following the completion of the AGM, the Board will comprise three non-executive Directors: Mr Ohlsson, who will continue as Chairman, Ms Fuller and the new Director. The Board will review the composition of its committees once the new Director is appointed.

In determining the succession plan which will address the Board's structure, composition and diversity, the Remuneration and Nomination committee have reviewed the recommended changes to the Company's investment policy and objectives proposed by the Board as a result of the Strategic Review.

As a result of the changes in Board composition after the AGM, the Remuneration and Nomination committee will also review each committee's responsibilities, composition and compensation.

Taking into consideration these matters and the results of the 2023 internal Board evaluation, the Remuneration and Nomination committee have recommended the Board retain Mr Ohlsson as Chairman to benefit from his experience and expertise. He has led the fund since its IPO in 2015.

Performance evaluation

The Directors are aware of the need to continually monitor and improve performance and recognise that regular Board evaluation is a valuable feedback mechanism for improving Board effectiveness.

In line with the recommendations of the AIC Code, an external evaluation is carried out every three years. In intervening years, such as this year, internal evaluations are carried out through a questionnaire. The questionnaire is specifically designed to assess the strength and independence of the Board, the Chairman and the individual Directors, the performance and focus of Board and committee meetings, the need for additional information required to facilitate Board discussions and each Director's continuing capacity. The results of the evaluation are presented to the Remuneration and Nomination committee and subsequently to the Board, with any key recommendations driven forward by the committee with assistance from the Company Secretary and Investment Manager, where relevant.

Diversity

Diversity is an important consideration to ensure the Board and its committees have the right balance of skills, experience, independence and knowledge necessary to discharge their responsibilities. The right blend of perspectives is critical to ensuring an effective board and a successful company.

Board diversity, including, but not limited to, gender, ethnicity, professional and industry specific knowledge and expertise, understanding of geographic markets and different cultures, is taken into account when evaluating the skills, knowledge and experience desirable to fill vacancies on the Board as and when they arise.

Board appointments are made based on merit and calibre with the most appropriate candidate, who is the best fit for the Company, nominated for appointment.

As a result, no measurable targets in relation to Board diversity have been set. At the date of this report, the Board consists of two males and two females.

The committee believes the Directors provide, individually and collectively, the breadth of skill and experience to manage the Company.

The committee notes the recommendations of the FTSE Women Leaders Review and the Parker Review on gender and diversity, as well as the FCA rules on diversity and inclusion on company boards. Namely, that from accounting periods starting on or after 1 April 2022:

- a) at least 40% of individuals on the Board should be women;
- b) at least one senior Board position should be held by a woman; and
- c) at least one individual on the Board should be from a minority ethnic background.

The committee continues to develop its succession plan in line with these recommendations, noting that both (a) and (b) are currently satisfied. There are two female Directors on the Board and one of these, Joanna Dentskevich, holds the role of Senior Independent Director.

As a Jersey resident company, the Board must comprise at least two Jersey resident Directors and, for tax purposes, each Board meeting should be held with a majority of Directors present in Jersey. This affects the Company's ability to source ethnically diverse Directors. The 2021 census of the population of Jersey showed that of a population of 103,297, only 4.1% were from a minority ethnic background, compared to England and Wales which had a population of 66.8 million in 2019¹, of which 15.2% were from a minority ethnic background.

In addition, the 2021/22 non-executive Director remuneration survey conducted by PwC Channel Islands showed that there is only one non-executive Director identified as a member of an ethnic minority out of 120 non-executive Directors who participated in the survey, representing 1,525 directorships.

In accordance with Listing Rule 9 Annex 2.1, the tables on page 87, in the prescribed format, show the gender and ethnic background of the Directors.

1. 2019 is the latest ethnic data to be released for England and Wales.

Gender identity¹

	Number of Board members	Percentage on the Board	Number of senior positions on the Board
Men	2	50%	1
Women	2	50%	1
Not specified/prefer not to say	—	—	—

Ethnic background¹

	Number of Board members	Percentage on the Board	Number of senior positions on the Board
White British or other White (including minority white groups)	4	100%	2
Mixed/Multiple Ethnic Groups	—	—	—
Asian/Asian British	—	—	—
Black/African/Caribbean/Black British	—	—	—
Other ethnic group, including Arab	—	—	—
Not specified/prefer not to say	—	—	—

The data in the above tables was collected through self-reporting by the Directors.

1. The Company is a closed-ended investment company with no employees, hence data for executive management in Listing Rule 9 Annex 2.1 is not applicable.

Overboarding

The Directors consider that as an investment company, the Company demands less time commitments than would be required of a non-executive director of an operating company. The Directors also believe that a formulaic approach to assessing whether a director is able to effectively discharge their duties is not appropriate given the nature of the Company and directorships.

Prior to their appointment to the Board, a Director must disclose existing significant commitments and confirm that they are able to allocate sufficient time to the business of the Company. In addition, a Director must consult with the Chairman or Senior Independent Director prior to taking on any listed company, conflicted, time-consuming or otherwise material board appointment and promptly notify the Company Secretary of any new board appointments they take on.

On an annual basis, through the Board's internal evaluation, as described on page 86, each Director's continuing ability to meet the time requirements of the role is assessed by considering, amongst other things, their attendance at Board, committee and other ad hoc meetings and events of the Company during the year as well as the nature and complexity of other, both public and private, roles held.

Directors' attendance at all Board and committee meetings held during the year is detailed on pages 83 and 84. None of the Directors hold an executive position of a public company or chair a public operating company.

The committee believes all the Directors have sufficient time to meet their Board responsibilities.

Re-election

Beyond the requirements of the Articles, and in accordance with the AIC Code, the Board has agreed a policy whereby all Directors will seek annual re-election at the Company's AGM. Any Director not re-elected would resign in accordance with applicable Jersey regulatory requirements.

In light of the outcome of the Strategic Review, Joanna Dentskevich and Colin Huelin, having each served for almost nine years, do not intend to seek re-election as non-executive Directors of the Company at the 2024 AGM.

As described on page 86 the Company is currently running a recruitment process to select a new Jersey-based independent non-executive Director to join the Board who will be seeking election at the 2024 AGM.

Alex Ohlsson and Marykay Fuller will be seeking re-election at the AGM in May 2024.

The Board believes that the incumbent Directors have the relevant skills and experience to lead the Company through the proposed Orderly Realisation. Therefore, the Board recommends that shareholders vote in favour of Mr Ohlsson and Ms Fuller's re-election.

Remuneration

The Directors' remuneration report on pages 96 and 97 details the remuneration policy and the Directors' remuneration during the year.

Marykay Fuller

Chair of the Remuneration and Nomination committee

24 April 2024

Audit, risk and internal control

Audit committee report

I am pleased to present the Audit committee report for the year ended 31 December 2023.



Colin Huelin FCA
Chair of the Audit committee

Statement from the chair

The Board is supported by the Audit committee, with written terms of reference which are available on the Company's website or on request from the Company Secretary. The committee's primary role is monitoring the integrity of the Company's financial reporting to ensure it is fair, balanced, understandable and provides the information necessary for shareholders and other users to assess the Company's position and performance, business model and strategy.

The committee is responsible for monitoring internal controls, in conjunction with the Risk committee, and the external audit process, which includes making recommendations to the Board in respect of the appointment, re-appointment and remuneration of the Auditor.

Composition and meetings

At 31 December 2023, the committee comprised Colin Huelin (chair), Joanna Dentskevich and Marykay Fuller. The qualifications and experience of the Audit committee members are detailed on pages 76 and 77. In light of the outcome of the Strategic Review, Joanna Dentskevich and Colin Huelin, each having served almost nine years, do not intend to seek re-election as non-executive Directors of the Company at the 2024 AGM.

The Board will review the composition of the Audit committee ahead of the AGM and make appropriate changes as required.

The Board has agreed that the committee chair, Colin Huelin, a chartered accountant, has recent and relevant financial experience as required by the provisions of the AIC Code.

The committee formally met four times during the year ended 31 December 2023. Details of attendance at meetings held during the year are set out on pages 83 and 84. Various additional meetings and calls of the committee were held during the year in respect of:

- interim, year-end and post balance sheet fair valuations with the independent Valuation Agent;

- post balance sheet review of the investment portfolio with the Investment Manager;
- interim and year-end review of the Company's going concern and viability analysis with the Investment Manager; and
- interim review with the Depositary subsequent to their on-site visit to the Investment Manager.

Although not members of the committee, the Company Secretary, the Investment Manager, the lead audit partner and representatives from the Company's Auditor are invited to attend committee meetings. The Auditor has the opportunity to meet with the committee without representatives of the Investment Manager being present.

The Auditor is not present when their performance and remuneration is discussed.

Financial reporting

The committee considered the requirements of the UK Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 with which it is complying voluntarily, in line with best practice reporting. As required under the AIC Code, the committee specifically reviewed the Company's annual report and financial statements, including the Company's key performance indicators and alternative performance measures, to conclude whether it is:

- fair, balanced, understandable, comprehensive and consistent with prior year reporting; and
- how the Board assesses the performance and position of the Company's business during and at the end of the financial year.

The committee also considered if the annual report and financial statements provided shareholders with the information necessary to assess the Company's strategy and business model. As part of the Strategic Review, the Board specifically sought shareholders' views in respect of three strategic options for the Company:

- i) a Continuation, paired with a partial capital return;
- ii) an Orderly Realisation; and
- iii) a Potential Sale.

The Board concluded that shareholder value will be best served by an Orderly Realisation, and that it recommends shareholders vote in favour of the Discontinuation Vote to be proposed at the Company's 2024 AGM. The committee's review and updates to the annual report, including the governance sections, have considered whether such changes provide shareholders with the information necessary to assess all three strategic options ahead of the Discontinuation Vote. As part of this review, and in conjunction with the Risk committee, the committee considered the sustainability disclosures on pages 38 to 57 to ensure that they reflect a fair and balanced view of the impact of climate change on the performance of the Company's business.

The committee presented its recommendations to the Board.

The Board concluded that it considered the annual report and financial statements, taken as a whole, to be fair, balanced and understandable and to provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

In addition to the above matters, the committee's work focused on:

- significant accounting matters recommended to the Board, and other narrative disclosures in the half-yearly and annual financial statements of the Company, including matters of judgement in relation to the valuation of financial assets at fair value through profit or loss and an assessment of the methodology. The committee discussed these matters with the independent Valuation Agent, the Investment Manager and the Auditor;
- the effectiveness of the Company's internal control environment;

— challenging the results of the Investment Manager's stress tests for the purpose of the going concern and viability statements and, in conjunction with the Risk committee, considered the going concern disclosures on page 72 and in note 2.1 to the financial statements;

- overseeing the Company's relations with the Auditor, including assessing the conduct and effectiveness of the audit process and the Auditor's independence and objectivity and recommending the Auditor's re-appointment and approval of the Auditor's fees; and
- the committee's own terms of reference.

The committee has direct access to the Auditor and to the key senior staff of the Investment Manager and reports its findings and recommendations to the Board, which retains the ultimate responsibility for the financial statements of the Company. All recommendations made during the year were accepted by the Board.

Significant issues considered

After discussions with the Investment Manager and the Auditor, the committee determined that the key risks of material misstatement to the Company's financial statements are related to the fair valuation of the investments as detailed below.

Fair valuation of investments	Actions and conclusions
<p>As outlined in notes 11 and 17 to the financial statements, the total value of financial assets at fair value at 31 December 2023 was £366.8 million (31 December 2022: £435.1 million). Market quotations are not available for these financial assets such that their valuation is undertaken using a discounted cash flow methodology, with exception to the methodology adopted for valuing the Group's Co-living group loan and the Group's multi-use community facility loan that are based on net realisable value.</p> <p>The discount rates adopted to determine the valuation are selected and recommended by the independent Valuation Agent. The discount rates are applied to the expected future cash flows for each investment's financial forecasts determined by the Investment Manager, to arrive at a valuation (discounted cash flow valuation). The resulting valuation is sensitive to the discount rate selected. The independent Valuation Agent is experienced and active in the area of valuing these investments and adopts discount rates that reflect their current and extensive experience.</p> <p>The independent Valuation Agent performs semi-annual financial asset valuations and provides valuation reports to the Board. Any assets subject to discount rate changes are valued and reported to the Board on a quarterly basis. The performance of the individual investments and the fair value of the financial assets is discussed with the Investment Manager at each quarterly Board meeting.</p>	<p>The committee met with the independent Valuation Agent prior to and following issuance of their semi-annual valuation reports to discuss and challenge their fair valuation of the Company's loans. The committee also met with the independent Valuation Agent post year end in March 2024 with the Company's Broker and requested the independent Valuation Agent provide a full opinion on the valuation of the Company's loans at 31 March 2024. Based on information received from the Investment Manager since the valuation at 31 December 2023, the independent Valuation Agent was requested to consider and, if appropriate, report on whether, in their opinion, the fair valuation of the loans at 31 December 2023 require adjustment to inform the committee's consideration of its post balance sheet valuation review. In addition to how relevant changes in market conditions for a given sector are considered in the determination of discount rates, the other key challenges posed by the committee to the independent Valuation Agent were:</p> <ul style="list-style-type: none"> a) the rationale for the level of discount rate increases determined by the independent Valuation Agent for each loan being lower than the observed increase in risk-free rates; and b) based on the information received from the Investment Manager, how the independent Valuation Agent's assessment of the likelihood of full recovery of loans is reflected in their fair valuation.

Audit, risk and internal control continued

Audit committee report continued

Significant issues considered continued

Fair valuation of investments	Actions and conclusions
	<p>c) how the structuring of a given loan, the security and the extent of control from the available enforceable arrangements and level of subordination is reflected by the independent Valuation Agent in their discount rate;</p> <p>d) the extent to which loans for which contractual repayment is either imminent or overdue are insensitive to discount rate changes and the impact on fair valuation;</p> <p>e) the relative disparity between the valuation of assets held for sale versus the fair valuation of assets held to maturity; and</p> <p>f) the appropriateness of applying a discounted cash flow valuation methodology or an alternative, such as assumed realisation based on estimated recovery and/or appropriate impairment.</p> <p>During the year and in March 2024, the committee met with the Investment Manager to discuss portfolio reports provided to the independent Valuation Agent for the valuations. The committee challenged the judgements and key estimates applied, including those concerning the impact of inflation and/or interest rate protection and general market conditions. The results of this meeting informed the committee's review of post balance sheet events.</p> <p>The committee was satisfied that the valuation methodology and judgements, including the range of the discount rates adopted by the independent Valuation Agent, were appropriate for the valuation.</p> <p>The committee also reviewed the disclosures of the sensitivity of discount rates on the fair valuation in note 17.4. In view of the change in the average weighted discount rate¹ of 2.1% during the year, the committee considered it was appropriate to increase the sensitivity range to +/-2%.</p>

Other matters considered during the year

Accounting policies, narrative reporting, critical accounting estimates and key judgements

The committee reviewed the narrative reporting, accounting policies and note 2.2 to the financial statements that relate to critical accounting estimates and key judgements and confirmed they are appropriate for the Company.

In particular, in conjunction with the Risk committee, the Audit committee's review updated the disclosures in note 17.6 relating to credit risk.

The contracted cash repayment profile of the Company's portfolio at 31 December 2023, including the repayment of historic and future forecast capitalised interest, and after provisions for certain watchlist and problem loans as advised by the Investment Manager, is disclosed on page 22.

1. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.

Internal control

The committee's monitoring and review of the internal controls of the Company was informed as follows:

Scope of reviews to monitor internal controls	Results and conclusions
1. Regular monitoring of controls during the year:	
1.1 Quarterly reports to the Board from the Investment Manager, Administrator, Compliance Officer and Depositary.	<p>The committee notes that the extent of ongoing departures and recruitment of senior staff referred to on page 32 is an important consideration for the effective monitoring of internal controls. The Investment Manager has a clearly defined governance structure with detailed processes that cover business operations, including investment management and portfolio monitoring and reporting. It obtains assurance over the design and operation of its finance and IT controls annually through the completion of an ISAE 3402 audit by external auditor, Deloitte LLP (refer to 2.1 below), and has introduced new Sarbanes–Oxley controls with an internal audit review as part of the ORIX Group's control environment which it is subject to and which is tested annually. The Board's review of the services provided by the Investment Manager and the effectiveness of its controls as part of the quarterly reporting cycle is ongoing to include, subject to the approval by shareholders of the Discontinuation Vote, its review of the Investment Manager's policies and procedures to support the Orderly Realisation.</p> <p>The Board concluded it's review of the Administrator in the year and identified areas for improvement, which the committee is pleased to report have been satisfactorily resolved in the year. The Board continue to monitor the performance of the Administrator on an ongoing basis.</p> <p>The Depositary's report of its on-site visit to review the Investment Manager's procedures, with a focus, requested by the Directors, on the effectiveness of the application by the Investment Manager of partial inflation and/or interest rate protection terms for certain loans concluded that there were no material matters that the Depositary wished to bring to the attention of the Board. Subsequent to this report, members of the committee met with the Depositary to discuss the effectiveness of its controls (as per 2.5 below).</p>
1.2 Bi-annual reports from the Investment Manager's risk officer to the Risk committee.	<p>The Investment Manager's risk officer confirmed that the risk management processes are appropriate and remain compliant with AIFMD, and appropriate measures are being undertaken to resolve issues with the reported problem loans, with additional senior resources assigned to assist with this.</p> <p>During the year, the Risk committee requested an analysis of the controls in place to ensure that AIFM was meeting its risk management obligations under AIFMD, as referred to on page 67. This review is ongoing.</p>
2. Thematic and other monitoring of controls:	
2.1 ISAE 3402 Type II reports on the operations of the key service providers, namely the Investment Manager, Administrator and its delegated accounting services.	The committee reviewed the independent reports, which confirmed that the controls tested operated effectively throughout the relevant periods within the scope of the review undertaken for such service providers. The committee also obtained bridging letters from the relevant service providers that confirmed the controls remained in place and were active.
2.2 Annual assurance confirmations provided by key service providers to the Management Engagement committee, which covered matters in relation to financial crime, cyber security, fraud prevention and detection, ESG and other compliance.	The Management Engagement committee reviewed the annual assurance compliance confirmations and no compliance exceptions were noted.

Audit, risk and internal control continued

Audit committee report continued

Other matters considered during the year continued

Internal control continued

Scope of reviews to monitor internal controls	Results and conclusions
<p>2.3 Independent testing of the Investment Manager's system for managing the Group's loans.</p>	<p>The committee reviewed the report of the independent review of the Investment Manager's financial model in April 2023. The independent review confirmed the model has been constructed appropriately and materially achieves the objective it was designed to meet, in so far as its logical integrity and input data was concerned, subject to a number of observations of which the Investment Manager is aware. The plan to enhance the Investment Manager's system is ongoing and continues to be monitored by the committee with regular review updates provided by the Investment Manager during the implementation phase to the Board.</p>
<p>2.4 Assurance over the migration of the Company's nominal ledger accounting sub-delegation by the Administrator to their Group Subsidiary in India.</p>	<p>With effect from 1 January 2024, the Company's accounting systems and processes are administered by the Administrator through their outsourcing agreement to the Group's Subsidiary in India. This includes reconciliation of the data extracts of accounting data relating to the Company's loan portfolio administered by the Investment Manager to the Company's new nominal ledger system. The committee challenged the Administrator and the Depositary's project approach, including data mapping/protection/privacy and security considerations. The committee reviewed updates from both service providers during the implementation phase and at cut-over that confirmed the controls remained in place and were active.</p>
<p>2.5 Review of the Depositary's control procedures.</p>	<p>The committee concluded a review of the Depositary in the year and identified areas for improvement. Recommendations for improvement remain under review and continue to be monitored by the Board.</p>

Going concern and viability statement

The financial statements have been prepared on a going concern basis with relevant disclosures concerning the material uncertainty about the Company's ability to continue. The committee has assessed the Company's ability to continue as a going concern and is satisfied that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the financial statements.

The committee also reviewed the Investment Manager's five year stress test analysis for the purpose of assessing the Company's viability for the two possible strategic options of Continuation or an Orderly Realisation. This review challenged the assumptions applied and the rationale for selecting the duration of five years for the viability period.

In addition, the committee considered how the Investment Manager had assessed the impact of climate risk across the physical assets in the portfolio and the impact on income generation as described on pages 55 and 56.

The committee concluded that the Investment Manager's assessment of the Company's exposure to climate risk as low, is reasonable. This assessment will continue to be monitored as the Investment Manager's climate risk assessment develops.

Re-appointment of the Auditor

The committee continues to be satisfied with the performance of the Auditor and has recommended the re-appointment of PwC as the Company's Auditor at the 2024 AGM.

The following table summarises the remuneration paid to the Auditor for audit and non-audit services during the year ended 31 December 2023:

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Audit fees		
Annual audit of the Company	170	131
Audit-related services		
Review of half-yearly report	36	36
Total	206	167

Colin Huelin FCA

Chair of the Audit committee

24 April 2024

Further detail on the basis of the going concern and viability assessment by the Directors is set out in the strategic report on pages 72 and 73 and in note 2.1 to the financial statements.

External audit

The committee met with the Auditor in December 2023 to review, challenge and agree their audit plan, and in particular their approach to the valuation of investments. Further discussions took place between the Directors and the Auditor following the announcement of the Strategic Review.

Independence and objectivity of the Auditor

PwC has been the Auditor of the Company since its first annual reporting period in 2016 and Lisa McClure has been the audit partner since the financial year ended 31 December 2021. There are no contractual obligations restricting the choice of auditor and the Company will consider placing the audit service contract out for tender at least every ten years, being no later than the financial year ending 31 December 2026.

To fulfil its responsibility regarding the independence and objectivity of the Auditor, the Audit committee considered:

- a report from the Auditor describing its arrangements for maintaining independence;
- the extent and nature of the non-audit; and
- services provided by the Auditor.

The committee has agreed a policy whereby, in order to avoid any potential impact on the independence and objectivity of the Auditor, the Company and its subsidiaries will not seek to obtain non-audit services from the Auditor, with the exception of the review of the half-yearly report and financial statements which are included in the FRC's whitelist of permitted non-audit services.

External audit results

The committee met with the Auditor in April 2024 to discuss their audit report and opinion, after the conclusion of their audit.

The Auditor explained the results of their audit and confirmed there were no adjustments proposed that were material in the context of the financial statements as a whole.

Effectiveness of the external audit

The committee discussed the effectiveness of the external audit process during the year, considering the performance, objectivity, independence and relevant experience of the Auditor. Following this review, the committee concluded that the audit was effective.

Audit, risk and internal control continued

Risk committee report

I am pleased to present the Risk committee report for the year ended 31 December 2023.



Joanna Dentskevich
Chair of the Risk committee

Statement from the chair

The purpose of the Risk committee is to assist the Board in its oversight and assessment of the risks the Company is exposed to, its appetite for those risks, the effectiveness of the risk management framework and to ensure the external reporting of the Company gives a fair, balanced and understandable reflection of risk having due regard for the Company's investment objective and policy.

Composition and meetings

The committee comprises all four Directors, all of whom are considered independent and, through their relevant financial experience, as set out on pages 76 and 77, provide effective challenges to the Company. During the year, the committee formally met four times. Details of attendance at those meetings are set out on pages 83 and 84.

In light of the outcome of the Strategic Review, Joanna Dentskevich and Colin Huelin, each having served almost nine years, do not intend to seek re-election as non-executive Directors of the Company at the 2024 AGM. The Board will review the composition of the Risk committee ahead of the AGM and make changes as required.

Responsibilities

The committee's key responsibilities, amongst others, are:

- to review the risks the Directors have identified the Company is exposed to;
- to review the appetite of the residual risk of each identified risk and ensure, for those risks outside of appetite, appropriate actions are taken where required;
- in conjunction with the Audit committee, to review the effectiveness of the internal controls and risk management framework;
- taking into account the risks identified by the AIFM, carry out a robust assessment of the principal and emerging risks facing the Company, including those that threaten its business model, future performance, solvency or liquidity and ability to deliver its strategy; and;
- provided a description of the principal and emerging risks along with explanations on how they are being managed or mitigated and any changes from previous years in the Company's annual report.

A copy of the terms of reference within which the committee operates is available on the Company's website or from the Company Secretary upon request.

Risk management and monitoring

The Company has in place a risk register to manage and track identified risks and uncertainties and potential emerging risks that the committee has identified the Company may be exposed to. For each risk, the committee considers, inter alia, the impact on the Company achieving its investment objective along with the nature and extent of the risk, their mitigants and any driving factors which may increase the risk.

The level of residual risk determined as part of this analysis assists the Board (on the committee's recommendation) in determining whether it is within the Company's risk appetite and identifying any actions required.

Both the risk register and the financial crime risk assessment are reviewed semi-annually in order to support the committee's assessment of the principal risks and uncertainties and emerging risks the Company reports in the half-yearly report and annual report.

Details of the Company's risk management framework, including the role of the AIFM, are set out on page 67.

Principal risks and uncertainties

As a result of the cessation of the Scheme and the Board's recommendation following the Strategic Review, which concluded that shareholder value would be best served by an Orderly Realisation, when reviewing the risks for the year, the Risk committee has identified two new principal risks and a new principal uncertainty as detailed on pages 68 to 71.

As a result of potential changes to the articles and investment objective and policy required to facilitate an Orderly Realisation, should the Discontinuation Vote pass, the Board believes there now exists new emerging risks relating to the manner in which income and capital are distributed including the timing, amount and tax treatment. Further details of these risks will be detailed in the Orderly Realisation Circular to be published on 2 May 2024.

Joanna Dentskevich

Chair of the Risk committee

24 April 2024

Remuneration

Directors' remuneration report

I am pleased to present the Directors' remuneration report for the year ended 31 December 2023.



Marykay Fuller

Chair of the Remuneration and Nomination committee

The Directors' remuneration report provides details on remuneration in the year. Although it is not a requirement under Jersey Company Law to have the Directors' remuneration report or the Directors' remuneration policy approved by shareholders, the Board believes that as a company whose shares are traded on the London Stock Exchange, it is good practice for it to do so.

The Directors' remuneration report is put to a shareholder vote every year.

The Directors' remuneration policy is put to a shareholder vote at least once every three years and in any year if there is a change in the policy.

The remuneration policy was put to, and approved by, shareholders in 2023 and as there will be no change in the way the policy will be implemented during the course of the next financial year, there is no requirement for the policy to be put to shareholders at this year's AGM.

This report is not subject to audit.

Voting at AGM

The Directors' remuneration report for the year ended 31 December 2022 and the Directors' remuneration policy were approved by shareholders at the AGM held on 15 May 2023. The votes cast by proxy were as follows:

	Directors' remuneration report		Directors' remuneration policy	
	Number of votes cast	% of votes cast	Number of votes cast	% of votes cast
For	247,889,136	99.98	247,889,136	99.98
Against	28,305	0.01	28,305	0.01
At the Chairman's discretion	19,000	0.01	19,000	0.01
Total votes cast	247,936,441	100.00	247,936,441	100.00
Number of votes withheld	6,232	—	6,232	—

Performance of the Company

The Board is responsible for the Company's investment strategy and performance. The management of the Group's investment portfolio is delegated to the Investment Manager through the investment management agreement, as referred to in note 18 to the financial statements.

The tables below illustrates the total shareholder return¹ for a holding in the Company's shares as compared to the GBP Corporate Bond Index. The Company considers this to be an appropriate index against which to measure the Company's performance, in the absence of a meaningful quoted benchmark index.

Cumulative performance to 31 December 2023

Period	Three months	Six months	One year	Three years	Five years	Since launch
GCP Asset Backed Income Fund Limited	9.7%	9.9%	(14.1)%	(20.4)%	(10.4)%	9.6%
GBP Corporate Bond Index	1.4%	3.6%	2.5%	(19.9)%	(3.1)%	12.0%

Annual performance to 31 December 2023

	Year ended 31 December 2023	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020	Year ended 31 December 2019
GCP Asset Backed Income Fund Limited	(14.1)%	(7.3)%	13.2%	(9.8)%	10.2%
GBP Corporate Bond Index	2.5%	(19.3)%	(3.3)%	9.1%	11.0%

Basis: percentage growth, shareholder total return with net income reinvested.
Past performance is not a guide to future performance.

Directors' remuneration

The fees paid to the Directors in the years ended 31 December 2023 and 31 December 2022 are set out below.

	Directors' base fee		Chairman fee		Committee chair fee		ESG representative fee		Expenses		Total	
	£	£	£	£	£	£	£	£	£	£	£	£
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Alex Ohlsson	48,375	45,000	20,000	15,000	—	—	—	—	1,014	552	69,389	60,552
Joanna Dentskevich	48,375	45,000	—	—	10,000	10,000	5,000	5,000	652	126	64,027	60,126
Colin Huelin FCA	48,375	45,000	—	—	15,000	10,000	—	—	350	643	63,725	55,643
Marykay Fuller	48,375	45,000	—	—	10,000	10,000	—	—	3,013	755	61,388	55,755
Total	193,500	180,000	20,000	15,000	35,000	30,000	5,000	5,000	5,029	2,076	258,529	232,076

The fees paid to the Directors were in relation to non-executive Director services. At 31 December 2023, liabilities in respect of these services amounted to £63,000 (31 December 2022: £58,000). No variable remuneration, discretionary payments or payments for loss of office were made during the year.

At the beginning of the year, the Board approved an increase to the Directors' base fee. In a period of significantly higher inflation (twelve month CPI at 28 February 2023 of 10.4% in the UK), the increase in the base fee was limited to 7.5%, with effect from 1 January 2023. In addition, the fee paid to the Chairman and the chair of the Audit committee was increased by £5,000 each following a review of market comparables and to take into account their increased workload.

The Remuneration and Nomination committee met in April 2024 and it was agreed that in light of the Strategic Review, the Discontinuation Vote and the forthcoming changes in the composition of the Board at the AGM in May 2024, there would be a re-allocation of Directors' remuneration related to revised committee responsibilities, assignments and compensation after the AGM.

1. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.

Remuneration continued

Directors' remuneration report continued

Relative importance of spend on pay

The table below sets out, in respect of the year ended 31 December 2023:

- total income;
- the remuneration paid to the Directors;
- the distributions made to shareholders by way of dividend; and
- share repurchases.

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000	Change %
Total income	26,310	14,394	82.8
Directors' remuneration ¹	254	230	10.4
Dividends paid to shareholders	27,046	27,766	(2.6)
Share repurchases	6,473	4,647	39.3

1. Excluding Directors' expenses.

Directors' interests

At 31 December 2023, the interests of the Directors in the ordinary shares of the Company are as set out below¹:

	31 December 2023 Number of shares	31 December 2022 Number of shares
Alex Ohlsson	50,000	50,000
Colin Huelin FCA	34,142	34,142
Joanna Dentskevich	57,379	57,379
Marykay Fuller	19,650	19,650

1. The Directors' shareholdings are either direct and/or indirect holdings of the ordinary shares in the Company.

There have been no changes to any of the above holdings between 31 December 2023 and the date of this report.

Directors' remuneration policy

In accordance with the AIC Code, no Director is involved in deciding his or her own remuneration.

The Board considers that Directors' fees should reflect duties, responsibilities and the value of time spent and, as such, the Chairman and the chairs of Board committees receive additional remuneration for these roles.

Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits in respect of their services as non-executive Directors of the Company. In addition, no payment will be made to a Director for loss of office, or as consideration for or in connection with his/her retirement from office.

The Board may, however, allow for additional remuneration to be paid where Directors, at the request of the Company, are involved in ad hoc duties beyond those normally expected as part of the appointment.

The remuneration of each of the Directors is subject to fixed fee arrangements, paid quarterly in arrears. Part of the Directors' fee may be paid in the form of fully paid shares in the capital of the Company. At 31 December 2023, no shares were issued in lieu of payment of the Directors' fee (31 December 2022: none).

The aggregate of all the Directors' remuneration is currently subject to an annual cap of £335,000 in accordance with the Articles and shall be reviewed annually.

The Company will reimburse the Directors all reasonable travelling, hotel and other expenses properly incurred by them in or about the proper performance of their duties and the taking of reasonable independent legal advice concerning matters relating to their directorship, provided that if and when required by the Company, they produce receipts to the Company or other evidence of actual payment of expenses.

The Company is committed to ongoing shareholder dialogue and any views expressed by shareholders on the fees being paid to Directors would be taken into consideration by the Board when reviewing the Directors' remuneration policy and in the annual review of Directors' fees.

Directors' fee levels

The Board has set different fee levels to reflect the workload, responsibilities and time commitment of the various roles held by Board members. The fee levels in respect of the year ended 31 December 2023 are in the table below.

	31 December 2024' £	31 December 2023 £
Base fee	48,375	48,375
Chairman's fee	20,000	20,000
Audit committee chair fee	15,000	15,000
Management Engagement committee chair fee	5,000	5,000
Remuneration and Nomination committee chair fee	5,000	5,000
Risk committee chair fee	10,000	10,000
ESG representative fee	5,000	5,000

Approval

The Directors' remuneration report was approved by the Board and signed on its behalf by:

Marykay Fuller

Chair of the Remuneration and Nomination committee

24 April 2024

1. Subject to the Remuneration and Nomination committee review described on page 96, the responsibilities, composition and compensation of the committees may change after the AGM. The total Directors' fees are subject to an annual cap of £335,000 in accordance with the articles of association and subject to annual review.

Directors' report

The corporate governance statement set out on pages 74 to 99 forms part of this report.

Principal activity and business review

The strategic report has been prepared by the Directors and should be read in conjunction with the Chairman's statement, forming part of the annual report to shareholders.

Directors

The Directors in office during the year and at 31 December 2023 are shown on pages 76 and 77.

The terms and conditions of the appointment of the Directors are formalised in letters of appointment, copies of which are available for inspection at the Company's registered office. None of the Directors have a contract of service with the Company nor has there been any other contract or arrangement between the Company and any Director at any time during the year.

The Company has Directors' and Officers' liability insurance and civil liability insurance. Under the Company's Articles, the Directors are provided, subject to the provisions of Jersey legislation, with an indemnity in respect of liabilities which they may sustain or incur in connection with their appointment.

Director conflicts of interest

It is the responsibility of each individual Director to avoid a conflict-of-interest situation arising. The Director must inform the Board as soon as he or she is aware of an interest that might conflict with the interests of the Company. The Company's articles of association authorise the Board to approve such situations, where it is deemed appropriate. A register of conflicts is maintained by the Company Secretary and is reviewed at Board meetings, to ensure that any authorised conflicts remain appropriate. The Directors are required to confirm whether there has been any change in their position at these meetings.

The Directors must also comply with the statutory rules requiring company directors to declare any interest in an actual or proposed transaction or arrangement with the Company.

Further details of the Directors' conflicts of interest can be found in note 18 to the financial statements.

Share capital

At the Annual General Meeting held on 15 May 2023, the Company was granted the authority to allot ordinary shares up to 10% of its total issued share capital at that date on a non-pre-emptive basis, amounting to 44,203,351 ordinary shares. No ordinary shares have been allotted under this authority during the year. Details of the movements in share capital during the year are set out in the statement of changes in equity on page 112 and in note 16 to the financial statements.

The Company will not seek renewal of this authority at the 2024 AGM.

Furthermore, at the 2022 AGM, the Company was granted the authority to purchase up to 14.99% of the Company's ordinary share capital in issue at the date on which the notice of the AGM was published. This authority will expire at the conclusion of, and renewal will be sought at, the AGM to be held on 20 May 2024.

During the year, the Company repurchased under this authority a total of 8,525,000 shares at a weighted average price of 75.85 pence per share, a discount¹ to the prevailing NAV.

At 31 December 2023, the Company's issued share capital comprised 442,033,518 ordinary shares of no par value, 16,407,459 of which are held in treasury. The total voting rights of the Company at 31 December 2023 were 425,626,059, being the issued share capital minus the shares held in treasury.

At general meetings of the Company, every ordinary shareholder shall have one vote in respect of every ordinary share and every C shareholder, if any, shall have one vote in respect of every C share. At 31 December 2023, there were no C shares in issue (31 December 2022: none).

Dividends

Details of the dividends paid and declared during the year are set out in note 9 to the financial statements. As the last dividend in respect of any financial period is payable prior to the relevant AGM, it is declared as an interim dividend and, accordingly, there is no final dividend payable.

The Board is conscious that this means that shareholders will not be given the opportunity to vote on the payment of a final dividend. Accordingly, it has been decided that shareholders will be asked to confirm their approval of the Company's dividend policy at the forthcoming AGM.

The Company has the authority to offer a scrip dividend alternative under which shareholders elect to receive new ordinary shares in lieu of the cash dividend.

The price of a new ordinary share to be issued under the scrip dividend alternative is calculated by taking the average of the Company's closing middle market quotations of an ordinary share for the ex-dividend date and the four subsequent dealing days.

As a result of the Company's ordinary shares trading at a discount¹ to the prevailing NAV, the Board exercised its discretion to suspend the scrip dividend alternative.

The Board will keep under consideration the offer of a scrip dividend alternative in respect of future quarterly dividends if the Company's ordinary shares trade at a premium¹ to the prevailing published NAV at the relevant time.

Greenhouse gas emissions

Refer to the sustainability section on page 57 for information.

1. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.

Significant voting rights

At the date of the report, the Company has been informed of the following holdings representing more than 3% of the voting rights of the Company:

Name	Shares held	Percentage of total voting rights
Valu-Trac Investment Management	39,391,667	9.26%
CCLA Investment Management	33,419,060	7.85%
Close Asset Management	29,202,559	6.86%
Waverton Investment Management	24,327,948	5.72%
West Yorkshire Pension Fund	18,421,098	4.33%
Integrated Financial Arrangements	14,380,811	3.38%
Canopius	13,544,656	3.18%
Raymond James Investment Services	13,376,927	3.14%
Hargreaves Lansdown Asset Management	12,758,260	3.00%

The Company has been informed of the following changes between 31 December 2023 and the date of this report:

Name	Shares held	Percentage of total voting rights
Valu-Trac Investment Management	39,391,667	9.26%
CCLA Investment Management	33,419,060	7.85%
Close Brothers Asset Management	28,219,768	6.63%
Waverton Investment Management	24,162,929	5.68%
West Yorkshire Pension Fund	18,421,098	4.33%
Integrated Financial Arrangements	14,466,369	3.40%
Canopius	13,544,656	3.18%
Raymond James Investment Services	13,239,774	3.11%

Auditor

PwC has expressed its willingness to continue as Auditor of the Company and resolutions for its re-appointment and to authorise the Audit committee to determine its remuneration will be proposed at the forthcoming AGM.

The Directors holding office at the date of this annual report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware.

Each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish the Company's Auditor is aware of that information.

Financial risk management

Information about the Company's financial risk management objectives and policies is set out in note 17 to the financial statements.

Requirements of the Listing Rules

Listing Rule 9.8.4 requires the Company to include specified information in a single identifiable section of the annual report or a cross reference table indicating where the information is set out.

The information required under Listing Rule 9.8.4(7) in relation to allotments of shares is set out under the heading 'Share capital' on page 100. The Directors confirm that there are no other disclosures required in relation to Listing Rule 9.8.4.

On behalf of the Board

Alex Ohlsson

Chairman

24 April 2024

Financial statements

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Statement of comprehensive income

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Statement of financial position

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Statement of changes in equity

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Statement of cash flows

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Notes to the financial statements

Pages 114 to 138

Statement of Directors' responsibilities

In respect of the annual report and financial statements

Under the terms of the DTRs of the FCA, the Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and IFRS Accounting Standards.

Companies Law requires the Directors to prepare financial statements for each year, which give a true and fair view of the state of affairs of the Company and the profit or loss for that year.

The Directors are required to:

- properly select suitable accounting policies and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRS Accounting Standards are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- make judgements and estimates that are reasonable and prudent; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors have overall responsibility for the maintenance and integrity of the corporate and financial information included on the Company's website.

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

Directors' responsibility statement

In accordance with the FCA's DTRs, each of the Directors, whose names are set out on pages 76 and 77, confirms that to the best of his or her knowledge:

- the annual report and financial statements, which have been prepared in accordance with IFRS Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the strategic report, including the Directors' report, includes a fair and balanced review of the development and performance of the business, and the financial position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

The annual report and financial statements, taken as a whole, are considered by the Board to be fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

On behalf of the Board

Alex Ohlsson
Chairman

24 April 2024

Independent Auditor's report

To the members of GCP Asset Backed Income Fund Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of GCP Asset Backed Income Fund Limited (the "company") as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards") and have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

What we have audited

The company's financial statements comprise:

- the statement of financial position as at 31 December 2023;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements of the company, as required by the Crown Dependencies' Audit Rules and Guidance. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which indicates that the ultimate decision on the future state of the company is outside the control of the Directors and will be known only once the shareholders' vote on the discontinuation of the company at the annual general meeting on 20 May 2024 and the outcome of the Proposals tabled for shareholders' approval at the proposed extraordinary general meeting have been concluded. As stated in note 2, these events or conditions, along with other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

Overview

Audit scope

- The company is based in Jersey and the financial statements include its investments in the Subsidiary and other investments as financial assets through profit or loss.
- Our audit work was performed solely in Jersey for the audit of the financial statements of the company.
- We tailored the scope of our audit taking into account the types of investments within the company, the accounting processes and controls, and the industry in which the company operates.
- We conducted our audit of the financial statements based on information provided by the appointed service providers to the company to whom the Board of Directors has delegated the provision of certain functions, including Gravis Capital Management Limited (the "Investment Manager and AIFM") and Apex Financial Services (Alternative Funds) Limited (the "Administrator").

Key audit matters

- Material uncertainty related to going concern.
- Valuation of financial assets at fair value through profit or loss: investment in Subsidiary.

Materiality

- Overall materiality: GBP 9.9 million (2022: GBP 10.3 million) based on 2.5% of net assets.
- Performance materiality: GBP 7.4 million (2022: GBP 7.7 million).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

This is not a complete list of all risks identified by our audit.

Independent Auditor's report continued

To the members of GCP Asset Backed Income Fund Limited

Our audit approach continued

Key audit matters continued

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of financial assets at fair value through profit or loss: Investment in Subsidiary Refer to note 11 and note 17 of the financial statements</p> <p>The valuation of financial assets at fair value through profit or loss: investment in Subsidiary ("investment in Subsidiary") drives a number of key performance indicators, such as net asset value, which is of significant interest to investors and the market.</p> <p>The fair value of the investment in Subsidiary is substantially derived from the fair value of secured loan notes to the end borrower.</p> <p>The valuations of secured loan notes are performed using contractual cash flows generated by each loan facility over a medium to long-term period and by selecting key assumptions such as the discount rate adjusted as appropriate for market, credit and liquidity risk factors.</p> <p>The nature of discounted cash flow ("DCF") is inherently subjective due to key assumptions used for the discount rate and the amount or timing of cash flows supporting the interest and capital repayments on debt positions held.</p> <p>The existence of significant estimation uncertainty, coupled with the fact that small percentage differences in assumptions to the valuations when aggregated could result in material misstatement, are the reasons for our specific audit focus and attention to this area.</p> <p>As a result of the inherent nature of the key assumptions used in the DCF model, the Directors appointed an external Valuation Agent to support them in ascertaining the fair value of secured loan notes.</p>	<p>We have performed the following procedures:</p> <ul style="list-style-type: none"> – Discussions were held with the Directors of the company and the Investment Manager to enable us to understand and evaluate the controls in place over the valuation process. – We assessed the company's external valuation agent's independence, qualifications and expertise and read their terms of engagement with the company to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work. – We read the valuation report issued by the external Valuation Agent and understood the valuation approach used. – We engaged valuation experts from PwC UK London to assess the reasonableness of the methodology applied by the external valuation agent with regards to a sample of investments and the reasonableness of key assumptions used. – We held discussions with the Investment Manager to understand the monitoring process of the borrowers' payments and financial performance, in identifying circumstances that can materially impact the recoverability of the contractual cash flows. – We agreed a sample of the contractual cash flows used in the DCF calculation to the contractual payment schedule of the loan facility agreements and tested the mathematical accuracy of the DCF calculation. The following procedures were carried out: <ul style="list-style-type: none"> – for a sample of new secured loans, we tested the drawdowns to signed facility agreements, note certificates and bank payments; – for a sample of Secured loan notes repaid during the year, we tested the movement to signed facility agreements and cash payments; – for a sample of interest received during the year, we agreed the amounts to bank payments; and – for a sample of interest accrued during the year, we recomputed the amounts using the interest rates as per the facility agreements and the outstanding balances of the loan amounts at the relevant period. – We challenged the assumptions used in the valuation models. – We considered the adequacy of the company's disclosures. – We also considered the disclosure of the degree of sensitivity when a reasonably possible change in a key assumption could give rise to a change in the fair value. <p>Based on the above procedures, we have not identified any material matters to report to those charged with governance.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, the industry in which the company operates, and we considered the risk of climate change and the potential impact thereof on our audit approach.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

Overall materiality	GBP 9.9 million (2022: GBP 10.3 million)
How we determined it	2.5% of net assets
Rationale for benchmark applied	We believe that net assets is the most appropriate benchmark because this is the key metric of interest to investors. It is also a generally accepted measure used for companies in this industry.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to GBP 7.4 million (2022: GBP 7.7 million) for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above GBP 496,000 (2022: GBP 515,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

The other information comprises all the information included in the Annual report and financial statements (the “Annual Report”) but does not include the financial statements and our auditor’s report thereon. The Directors are responsible for the other information.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors’ responsibilities’, the Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS Accounting Standards, the requirements of Jersey law and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent Auditor's report continued

To the members of GCP Asset Backed Income Fund Limited

Responsibilities for the financial statements and the audit continued

Auditor's responsibilities for the audit of the financial statements

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Use of this report

This report, including the opinions, has been prepared for and only for the members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Report on other legal and regulatory requirements**Company Law exception reporting**

Under the Companies (Jersey) Law 1991 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;
- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Corporate governance statement

The Listing Rules require us to review the Directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

The company has reported compliance against the 2019 AIC Code of Corporate Governance (the "Code") which has been endorsed by the UK Financial Reporting Council as being consistent with the UK Corporate Governance Code for the purposes of meeting the company's obligations, as an investment company, under the Listing Rules of the FCA.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement included within the Strategic report section and the Governance section of the Annual Report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The Directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The Directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate; and
- The Directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the Directors' statement regarding the longer-term viability of the company was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the company and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The Directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the company position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the Directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Lisa McClure

For and on behalf of
PricewaterhouseCoopers CI LLP
Chartered Accountants and Recognized Auditor
Jersey, Channel Islands

24 April 2024

Statement of comprehensive income

For the year ended 31 December 2023

	Notes	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Income			
Loan note interest realised	3	31,747	31,945
Net loss on financial assets at fair value through profit or loss	3	(7,396)	(18,281)
Net gain/(loss) on derivative financial instruments	3	468	(781)
Net changes in fair value of financial assets and financial liabilities at fair value through profit or loss		24,819	12,883
Other income	3	1,326	1,498
Deposit interest income		165	13
Total income		26,310	14,394
Expenses			
Investment management fees	18	(3,448)	(3,724)
Operating expenses	4	(1,599)	(1,759)
Directors' remuneration	6	(259)	(232)
Total expenses		(5,306)	(5,715)
Total operating profit before finance costs		21,004	8,679
Finance costs			
Finance expenses	7	(2,740)	(992)
Total profit and comprehensive income		18,264	7,687
Basic and diluted earnings per share (pence)	10	4.27	1.75

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

The accompanying notes on pages 114 to 138 form an integral part of these financial statements.

Statement of financial position

As at 31 December 2023

	Notes	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Assets			
Cash and cash equivalents	13	30,936	10,311
Derivative financial instruments	17.1	107	243
Other receivables and prepayments	12	250	66
Financial assets at fair value through profit or loss	11	366,818	435,071
Total assets		398,111	445,691
Liabilities			
Derivative financial instruments	17.1	(5)	(257)
Other payables and accrued expenses	15	(1,361)	(1,527)
Revolving credit facilities	14	—	(31,907)
Total liabilities		(1,366)	(33,691)
Net assets		396,745	412,000
Equity			
Share capital	16	431,487	437,960
Retained losses		(34,742)	(25,960)
Total equity		396,745	412,000
Ordinary shares in issue (excluding treasury shares)	16	425,626,059	434,151,059
NAV per ordinary share (pence per share)		93.21	94.90

The financial statements were approved and authorised for issue by the Board of Directors on 24 April 2024 and signed on its behalf by:

Alex Ohlsson
Chairman

Colin Huelin FCA
Director

The accompanying notes on pages 114 to 138 form an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2023

	Notes	Share capital £'000	Retained losses £'000	Total equity £'000
Balance as at 1 January 2023		437,960	(25,960)	412,000
Total profit and comprehensive income for the year		—	18,264	18,264
Share repurchases	16	(6,473)	—	(6,473)
Dividends paid	9	—	(27,046)	(27,046)
Balance as at 31 December 2023		431,487	(34,742)	396,745

Statement of changes in equity

For the year ended 31 December 2022

	Notes	Share capital £'000	Retained losses £'000	Total equity £'000
Balance as at 1 January 2022		442,607	(5,881)	436,726
Total profit and comprehensive income for the year		—	7,687	7,687
Share repurchases	16	(4,647)	—	(4,647)
Dividends paid	9	—	(27,766)	(27,766)
Balance as at 31 December 2022		437,960	(25,960)	412,000

The accompanying notes on pages 114 to 138 form an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2023

	Notes	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Cash flows from operating activities			
Total operating profit before finance costs		21,004	8,679
Adjustments for:			
Net changes in fair value of financial assets and financial liabilities at fair value through profit or loss	3	(24,819)	(12,883)
Net settlement of derivative financial instruments	3	353	(275)
(Decrease)/increase in other payables and accrued expenses		(150)	112
(Increase)/decrease in other receivables and prepayments	12	(4)	62
Total		(3,616)	(4,305)
Loan note interest realised	3	31,747	31,945
Investment in Subsidiary	11	(32,655)	(101,985)
Capital repayments from Subsidiary	11	93,512	95,622
Net cash flow generated from operating activities		88,988	21,277
Cash flows from financing activities			
Proceeds from revolving credit facilities	14	16,000	51,550
Repayment of revolving credit facilities	14	(48,050)	(39,399)
Share repurchases	16	(6,473)	(4,647)
Finance costs paid		(2,794)	(812)
Dividends paid	9	(27,046)	(27,766)
Net cash flow used in financing activities		(68,363)	(21,074)
Net increase in cash and cash equivalents		20,625	203
Cash and cash equivalents at beginning of the year		10,311	10,108
Cash and cash equivalents at end of the year	13	30,936	10,311

The accompanying notes on pages 114 to 138 form an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2023

1. General information

The Company is a public closed-ended investment company incorporated on 7 September 2015 and domiciled in Jersey, with registration number 119412. The Company is governed by the provisions of the Jersey Company Law and the CIF Law.

The ordinary shares and C shares (when in issue) of the Company are admitted to the Official List of the FCA and are traded on the Premium Segment of the Main Market of the LSE.

The Company makes investments through its wholly owned Subsidiary by subscribing for the Secured Loan Notes issued by the Subsidiary. The Subsidiary subsequently on-lends the funds to borrowers.

At 31 December 2023, the Company had one wholly owned Subsidiary, GABI UK (31 December 2022: one), incorporated in England and Wales on 23 October 2015 (registration number 9838893). GABI UK has three subsidiaries (31 December 2022: three): GABI Housing (registration number 10497254) incorporated in England and Wales on 25 November 2016, GABI GS (registration number 10546087) incorporated in England and Wales on 4 January 2017 and GABI Housing 2 (registration number 14372988) incorporated in England and Wales on 23 September 2022. The Company, GABI UK, GABI Housing, GABI GS and GABI Housing 2 comprise the Group. The registered office address for GABI UK, GABI Housing, GABI Housing 2 and GABI GS is 24 Savile Row, London W1S 2ES.

GABI GS was set up to hold shares as security for loans issued to underlying borrowers where required. Its purpose is to isolate any potential liabilities that arise from holding shares as security from the Company.

GABI Housing was set up for the sole purpose of investing in five underlying properties and the social income stream derived from these properties by letting them out to specialist housing associations.

GABI Housing 2 was set up to invest in a single, unlevered, operational rental property and benefit from the income stream derived from this asset.

The Company, through its Subsidiary, seeks to meet its investment objective through a diversified portfolio of investments which are secured against, or comprise, contracted, predictable, medium to long-term cash flows and/or physical assets.

The Group's investments are predominantly in the form of medium to long-term fixed or floating rate loans which are secured against cash flows and/or physical assets which are predominantly UK based.

The Group's investments are typically unquoted and include, but are not limited to, senior loans, subordinated loans, mezzanine loans, bridge loans and other debt instruments. The Group may also make limited investments in equities, equity-related derivative instruments such as warrants, controlling equity positions (directly or indirectly) and/or directly in physical assets.

The Group at all times invests and manages its assets in a manner consistent with the objective of spreading investment risk.

Where possible, investments are structured to benefit from partial inflation and/or interest rate protection.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below and in the subsequent notes. These policies, except for the changes discussed in this note, have been consistently applied throughout the years they have been presented.

2.1 Basis of preparation

The annual report and financial statements for the year ended 31 December 2023 have been prepared on a going concern basis and in accordance with IFRS Accounting Standards, and as applied in accordance with the Jersey Company Law.

In accordance with the investment entities exemption contained in IFRS 10 Consolidated Financial Statements, the Directors have determined that the Company continues to meet the definition of an investment entity and as a result, the Company is not required to prepare consolidated financial statements. The Company's investment in its Subsidiary is measured at fair value and treated as a financial asset through profit or loss in the statement of financial position (refer to note 2.2(b)).

The Company raises capital through the issue of ordinary shares and C shares. The net assets attributable to the C share class, when in issue, are accounted for and managed by the Company as a distinct pool of assets, with the Company ensuring that separate cash accounts are created and maintained.

Expenses are either specifically allocated to an individual share class or split proportionately by the NAV of each share class. When in issue, C shares are classified as a financial liability. At 31 December 2023, there were no C shares in issue (31 December 2022: none).

New standards, amendments and interpretations adopted in the year

In the year under review, the Company has applied amendments to IFRS Accounting Standards as issued by the IASB. These include annual improvements to IFRS Accounting Standards, changes in standards, legislative and regulatory amendments, changes in disclosure and presentation requirements. This incorporated:

- disclosure of accounting policies (amendments to IAS 1 and IFRS Practice Statement 2);
- definition of accounting estimates (amendments to IAS 8);
- deferred tax related to assets and liabilities arising from a single transaction (amendments to IAS 12 Income Taxes); and
- IFRS 17 Insurance Contracts.

The adoption of the changes to accounting standards has had no material impact on these or prior years' financial statements. There are amendments to IFRS that will apply from 1 January 2024 as follows:

- non-current liabilities with covenants (amendments to IAS 1) and classification of liabilities as current or non-current (amendments to IAS 1); and
- supplier finance arrangements (amendments to IAS 7 and IFRS 7).

There is one amendment to IFRS Accounting Standards applicable from 1 January 2025:

- lack of exchangeability (amendments to IAS 21).

The Directors do not anticipate the adoption of these will have a material impact on the financial statements.

Other than those detailed above, there are no new IFRS Accounting Standards or IFRIC interpretations that have been issued but are not yet effective that are expected to have a material impact on the Company's financial statements.

Functional and presentation currency

The primary objective of the Company is to generate returns in Pound Sterling, its capital-raising currency.

The Company's performance is evaluated in Pound Sterling. Therefore, the Directors consider Pound Sterling as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

The financial statements are presented in Pound Sterling and all values have been rounded to the nearest thousand pounds (£'000), except where otherwise indicated.

Going concern

The financial statements have been prepared on a going concern basis. The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date when these financial statements were approved.

Liquidity position

At 31 December 2023, the Company held cash and cash equivalents of £30.9 million. In the statement of financial position, the Company had total current liabilities of £1.4 million, consisting of other payables and accrued expenses with £nil amounts drawn on the RCF. The Company's net current asset position at 31 December 2023 was £29.5 million.

The Investment Manager has prepared cash flow forecasts for two scenarios that assume the continuation of the Company with its current investment objective and policy and a discontinuation scenario with a change to its existing investment objective and policy to effect an Orderly Realisation. The latter scenario assumed that the Company will not be liquidated in the immediate future and the Board will seek to implement the Orderly Realisation in a manner that maximises shareholder value. Their cash flow forecasts and accompanying stress tests prepared by the Investment Manager were reviewed and challenged by the Directors. The Investment Manager's stress tests assess the impact of changes in the valuation of the underlying investment portfolio and/or income and consider the impact of plausible downside scenarios, details of which are given on page 73.

The surplus cash reserves, in addition to the RCF, enable the Company to meet any funding requirements and finance future additional investments that may be considered in a continuation scenario. The Company is a closed-ended investment company, with assets that are not required to be liquidated to meet day-to-day redemptions.

The conclusion reached by the Board was that in both a Continuation and Orderly Realisation scenario, the Company could continue to meet its liabilities as they fall due. The Directors are satisfied that the Company has adequate financial resources to continue in operational existence and meet all liabilities as they fall due for a period of at least twelve months from the date on which the annual report and financial statements are approved.

Discontinuation and other considerations

On 13 December 2023, the Company announced that the Board would commence a Strategic Review to consider how to best deliver value to shareholders (the "Strategic Review").

The Board has specifically sought shareholders' views in respect of:

- i) the potential continuation of the Company in its present form in accordance with its current investment policy delivered by the Investment Manager, paired with a partial capital return ("Continuation");
- ii) a wind-down of the Company with an orderly realisation of its assets ("Orderly Realisation"). The Orderly Realisation of the Company's investments is expected to be in line with the contractual maturity dates, the majority of which are expected to be realised within a two to four year period; and
- iii) a potential sale of the entire issued share capital of the Company and/or its assets ("Potential Sale").

Feedback from the Strategic Review noted that whilst differing views were expressed by shareholders on the future of the Company, shareholders representing a majority of the total voting rights in the Company indicated a preference for a Orderly Realisation or a Potential Sale.

Taking market conditions and other factors into account, the Board has concluded that shareholder value will be best served by an Orderly Realisation and return of capital. The Board will propose the Company's discontinuation at the 2024 AGM and if the vote is passed, will immediately hold an EGM for certain resolutions to facilitate the Ordinary Realisation.

Discontinuation and Orderly Realisation

Shareholders will be given the opportunity to vote on the discontinuation of the Company at the 2024 AGM, which will be presented as an ordinary resolution requiring a majority of those voting to vote in favour of discontinuation in order for the resolution to pass.

The Board intends to recommend that shareholders vote for discontinuation of the Company in its present form. If the shareholders do not vote in favour of discontinuation then the Company will continue to operate in its current form.

In addition, and subject to the approval by shareholders of the Discontinuation Vote and the prior approval of the FCA, the Board intends to convene an EGM to be held immediately after the 2024 AGM at which it will seek approval from shareholders to i) amend the Company's investment objective and policy to contemplate the Orderly Realisation and ii) adopt new articles of association (the "Proposals").

The Orderly Realisation will not result in a liquidation of the Company in the immediate future and the Board will seek to implement the Orderly Realisation in a manner that maximises value for shareholders.

The Directors note that the ultimate decision on the future state of the Company is outside the control of the Directors and will be known only after the 2024 AGM and the proposed EGM. The uncertain future outcome of the 2024 AGM and the proposed EGM and the impact this has on the Company's future state indicates that a material uncertainty exists that may cast significant doubt over the Company's ability to continue as a going concern.

The Directors believe, based on discussions held with shareholders representing a majority of the total voting rights in the Company, that the discontinuation of the Company will be approved by shareholders at the 2024 AGM and immediately following that, the Proposals will be approved by shareholders at the proposed EGM. In addition, the Directors have prepared cash flow projections which demonstrate that the Company has adequate financial resources to continue in operational existence and meet all liabilities as they fall due for a period of at least twelve months from the date of approval of the financial statements.

Notes to the financial statements continued

For the year ended 31 December 2023

2. Significant accounting policies continued

2.1 Basis of preparation continued

Going concern continued

Discontinuation and Orderly Realisation continued

For these reasons, and based upon the expected duration of an Orderly Realisation, the Directors have prepared the financial statements on a going concern basis.

Viability assessment

In addition to a going concern statement, the Directors have undertaken a longer-term assessment of the Company, the result of which can be seen in the viability statement on page 73.

2.2 Significant accounting estimates and judgements

The preparation of financial statements, in accordance with IFRS Accounting Standards, requires the Directors to make estimates and judgements that affect the reported amounts recognised in the financial statements. However, uncertainty about these assumptions and judgements could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in the future. There are no changes in estimates reported in prior financial statements that require disclosure in these financial statements.

(a) Critical accounting estimates and assumptions

Fair value of instruments not quoted in an active market

The Company's investments are made by subscribing for the Secured Loan Notes issued by the Subsidiary. The Subsidiary's assets consist of investments held by the Subsidiary, which represent secured loan facilities issued to the Project Companies. The Subsidiary's assets are not quoted in an active market; therefore, the fair value is determined using a discounted cash flow methodology where applicable (excluding the loans held at net realisable value which are not valued on a discounted cash flow basis) adjusted as appropriate for market, credit and liquidity risk factors (refer to note 17.9 for further information). This requires assumptions to be made regarding future cash flows and the discount rate applied to these cash flows. The Subsidiary's investments are valued by an independent Valuation Agent on a semi-annual basis. Investments which may be subject to discount rate changes are valued on a quarterly basis.

The models used by the Valuation Agent use observable data to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require estimates to be made. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

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

The investment in the Subsidiary is held at fair value through profit or loss, with income distributions and interest payments from the Subsidiary included as part of the fair value movement calculation, together with any unrealised movement in the fair value of the holding in the Subsidiary.

The value of the investment in the Subsidiary is based on the aggregate of the NAV of the Subsidiary and the value of the Secured Loan Notes issued by the Subsidiary. Refer to note 11 for further details.

Valuation of assets held at net realisable value

The Co-living group loan was valued at the year end based on the anticipated receipt of retention balances held in respect of the sale of the Canary Wharf asset, which has already been concluded. The expected recovery is contingent upon the outcome of ongoing planning and tax considerations, which are currently under review by the relevant authorities.

One of the football finance loans was valued at the year end based on the guaranteed portion of the loan, which is held at par, with the unguaranteed portion written down to £nil due to uncertainty around repayments. These are dependent upon the football club being sold in the future and there is uncertainty regarding the quantum of sale proceeds.

The valuation of one of the multi-use community facility loans held at net realisable value was based on an estimated recovery position on the sale of the asset. Further information is given on page 21 and note 17.9.

(b) Critical judgements

Assessment as an investment entity

The Directors have concluded that the Company continues to meet the definition of an investment entity.

Entities that meet the definition of an investment entity within IFRS 10 Consolidated Financial Statements are required to measure their subsidiaries at fair value through profit or loss rather than consolidate.

The criteria which define an investment entity are as follows:

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

The Directors have concluded that the Company continues to meet the characteristics of an investment entity in that it:

- raises funds from investors through the issue of equity, has more than one investor and its investors are not related parties other than those disclosed in note 18;
- invests in a portfolio of investments held by the Subsidiary for the purpose of generating risk-adjusted returns through regular distributions and capital appreciation; and
- the Company's investments are held at fair value through profit or loss with the performance of its portfolio evaluated on a fair value basis.

Accordingly, the Company's Subsidiary is not consolidated, but rather the investment in the Subsidiary is accounted for at fair value through profit or loss. The value of the investment in the Subsidiary is based on the aggregate of the NAV of the Subsidiary and the value of the Secured Loan Notes issued by the Subsidiary.

(c) Segmental information

The Directors view the operations of the Company as one operating segment, being the investment portfolio of asset backed loans held through the Subsidiary, which is a registered UK company. All significant operating decisions made by the Board, as the chief operating decision maker, are based upon analysis of the Subsidiary's investments as one segment. The financial results from this segment are equivalent to the financial results of the Company as a whole, which are evaluated regularly by the Directors.

Significant shareholders are disclosed in the Directors' report on page 101.

3. Operating income

The table below analyses the operating income derived from the Company's financial assets at fair value through profit or loss:

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Loan note interest realised	31,747	31,945
Unrealised loss on financial assets at fair value through profit or loss:		
Debt – Secured Loan Notes up to £1,000,000,000	(4,257)	(17,700)
Equity – representing one ordinary share in the Subsidiary	(48)	745
Realised loss on financial assets at fair value through profit or loss:		
Debt – Secured Loan Notes up to £1,000,000,000	(3,091) ¹	(1,326)
Net loss on financial assets at fair value through profit or loss	(7,396)	(18,281)
Gain/(loss) on derivative financial instruments:		
Unrealised gain/(loss) on forward foreign exchange contracts	115	(506)
Realised gain on forward foreign exchange contracts	680	795
Realised loss on forward foreign exchange contracts	(327)	(1,070)
Net gain/(loss) on derivative financial instruments	468	(781)
Net changes in fair value of financial assets and financial liabilities at fair value through profit or loss	24,819	12,883

The table below analyses the other income earned by the Company by type:

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Arrangement fee income	109	258
Commitment fee income	—	480
Early repayment fee income	1,177	760
Sundry income	40	—
Total	1,326	1,498

1. Comprises a write-down in respect of the Co-living group loan. The Company has recognised historic losses of £35.1 million in total in respect of the Co-living group loan.

Notes to the financial statements continued

For the year ended 31 December 2023

3. Operating income continued

Accounting policy

Interest income and interest expense other than interest received on financial assets held at fair value through profit or loss are recognised on an accruals basis in the statement of comprehensive income.

Net movements in fair value of financial assets and financial liabilities at fair value through profit or loss includes changes in the fair value of the investment in the Subsidiary held at fair value through profit or loss, loan note interest realised, principal indexation applied to certain loans and net gain or loss on forward foreign exchange contracts.

Principal indexation is applied to certain loan notes where applicable. The indexation is a contractually allowable inflationary adjustment to loan principal calculated where permitted by a predefined mechanism in a loan agreement. The effect of the adjustment is to increase or decrease the fair value of those loan notes in line with the indexation factor which takes account of the rate of inflation against a stipulated inflation threshold of each relevant loan. The fair values of those loan notes are subsequently adjusted accordingly.

Arrangement fee income comprises fees relating to the issue and set up of Secured Loan Notes. The Investment Manager, at its discretion, is entitled to an arrangement fee of up to 1% of the value of each investment made by the Group. The Investment Manager generally expects the costs of any such fee to be covered by the borrowers, and not the Company. To the extent any arrangement fee negotiated by the Investment Manager with a borrower exceeds 1%, the benefit of any such excess is paid to the Company. The arrangement fee income is recognised in the financial statements when contractual provisions are met and the amounts become due.

Commitment fees are accounted for on an accruals basis and are paid by the borrowers.

Early repayment fee income is income related to the redemption of loans before maturity and is recognised in the financial statements when contractual provisions are met and the amounts become due.

The Company holds derivative financial instruments comprising forward foreign exchange contracts to hedge its exposure to movements in foreign currency exchange rates on loans denominated in currency other than Pound Sterling. It is not the Company's policy to trade in derivative financial instruments.

Forward foreign exchange contracts are stated at fair value, being the difference between the agreed price of selling or buying the financial instrument on a future date and the price quoted for selling or buying the same or similar instruments on the statement of financial position date. The Company does not apply hedge accounting and consequently all gains or losses in fair value are recognised in the statement of comprehensive income.

4. Operating expenses

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Corporate administration and Depositary fees	610	590
Registrar fees	46	39
Audit fees	170	131
Legal and professional fees	157	67
Valuation Agent fees	139	186
Other	477	746
Total	1,599	1,759

Key service providers other than the Investment Manager (refer to note 18 for disclosures of transactions with the Investment Manager).

Administrator and Company Secretary

The Company has appointed Apex Financial Services (Alternative Funds) Limited as Administrator and Company Secretary. Fund accounting, administration and company secretarial services are provided to the Company pursuant to an agreement dated 28 September 2015. The Administrator outsources the provision of client accounting services to Apex Fund Services LLP (previously Link Alternative Fund Administrators Limited). All Directors have access to the Company Secretary, who provides guidance to the Board, through the Chairman, on governance and administrative matters. The fee for the provision of administration and company secretarial services during the year was £489,000 (31 December 2022: £462,000) of which £108,000 remains payable at year end (31 December 2022: £112,000).

Depository

Depository services are provided to the Company by Apex Financial Services (Corporate) Limited pursuant to an agreement dated 28 September 2015. The fee for the provision of these services during the year was £121,000 (31 December 2022: £128,000) of which £30,000 remains payable at year end (31 December 2022: £31,000).

Accounting policy

Operating expenses and investment management fees in the statement of comprehensive income are recognised on an accruals basis.

5. Auditor's remuneration

The following table summarises the remuneration paid to the Auditor for audit and non-audit related services:

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Audit fees		
Annual audit of the Company	170	131
Audit-related services		
Review of the half-yearly report	36	36
Total	206	167

6. Directors' remuneration

The Directors of the Company were remunerated as follows:

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Alex Ohlsson	68	60
Colin Huelin FCA	64	55
Joanna Dentskevich	64	60
Marykay Fuller	58	55
Total	254	230
Directors' expenses	5	2
Total	259	232

Full details of the Directors' remuneration policy can be found in the Directors' remuneration report on pages 96 to 99.

7. Finance expenses

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Arrangement fees relating to the RCF	247	224
Commitment fees relating to the RCF	111	297
Interest expense relating to the RCF	2,382	471
Total	2,740	992

Accounting policy

Finance expenses in the statement of comprehensive income comprise loan arrangement and commitment fees which are accounted for on an accruals basis, along with interest accrued on the RCF (refer to note 14) incurred in connection with the borrowing of funds. Arrangement fees are amortised over the life of the RCF.

Notes to the financial statements continued

For the year ended 31 December 2023

8. Taxation

Profits arising in the Company for the year ended 31 December 2023 are subject to tax at the standard rate of 0% (31 December 2022: 0%) in accordance with the Income Tax (Jersey) Law 1961, as amended.

9. Dividends

Quarter ended	Dividend	Pence per share	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Current year dividends				
31 December 2023	2023 fourth interim dividend	1.58125	— ¹	—
30 September 2023	2023 third interim dividend	1.58125	6,731	—
30 June 2023	2023 second interim dividend	1.58125	6,730	—
31 March 2023	2023 first interim dividend	1.58125	6,765	—
Total		6.32500	20,226	—
Prior year dividends				
31 December 2022	2022 fourth interim dividend	1.58125	6,820	— ¹
30 September 2022	2022 third interim dividend	1.58125	—	6,929
30 June 2022	2022 second interim dividend	1.58125	—	6,955
31 March 2022	2022 first interim dividend	1.58125	—	6,955
Total		6.32500	6,820	20,839
31 December 2021	2021 fourth interim dividend	1.57500	—	6,927
Dividends in statement of changes in equity and cash flows			27,046	27,766

On 8 February 2024, the Company announced a fourth interim dividend of 1.58125 pence per share amounting to £6.7 million which was paid on 15 March 2024 to ordinary shareholders on the register at 16 February 2024.

Accounting policy

In accordance with the Company's Articles, in respect of the ordinary shares, the Company will distribute the income it receives to the fullest extent that is deemed appropriate by the Directors. Dividends due to the Company's shareholders are recognised as a liability in the period in which they are paid or approved by the Directors and are reflected in the statement of changes in equity. Dividends declared and approved by the Company after the statement of financial position date have not been recognised as a liability of the Company at the statement of financial position date.

The Company pays dividends on a quarterly basis with dividends typically declared in January, April, July and October and paid in or around February, May, August and November in each financial year.

10. Earnings per share

Basic EPS is calculated by dividing profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year, excluding shares held in treasury. Diluted EPS is calculated by dividing the profit attributable to ordinary shareholders by the diluted weighted average number of ordinary shares, excluding shares held in treasury.

	Earnings £'000	Weighted average number of ordinary shares	Pence per share
Year ended 31 December 2023			
Basic EPS	18,264	427,242,221	4.27
Diluted EPS	18,264	427,242,221	4.27
Adjusted EPS ²	30,025	427,242,221	7.02

- The fourth interim dividend was declared after the year end and is therefore not accrued for as a provision in the financial statements.
- Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.

	Earnings £'000	Weighted average number of ordinary shares	Pence per share
Year ended 31 December 2022			
Basic EPS	7,687	439,291,385	1.75
Diluted EPS	7,687	439,291,385	1.75
Adjusted EPS ¹	28,900	439,291,385	6.58

11. Financial assets at fair value through profit or loss: investment in Subsidiary

The Company's financial assets at fair value through profit or loss comprise its investment in the Subsidiary, which represents amounts advanced to finance the Group's investment portfolio in the form of Secured Loan Notes issued by the Subsidiary to the Company and equity. The Company's investment in the Subsidiary at 31 December 2023 comprised:

	2023 £'000	2022 £'000
Debt – Secured Loan Notes up to £1,000,000,000		
Opening balance	430,984	443,647
Investment in Subsidiary	32,655	101,985
Capital repayments from Subsidiary	(93,512)	(95,622)
Realised loss on financial assets at fair value through profit or loss	(3,091) ²	(1,326)
Unrealised loss on financial assets and liabilities at fair value through profit or loss:		
Unrealised valuation loss	(8,671)	(20,370)
Unrealised foreign exchange (loss)/gain	(317)	1,503
Other unrealised movements on investments ³	4,731	1,167
Total unrealised loss on investments at fair value through profit or loss	(4,257)	(17,700)
Total	362,779	430,984
	31 December 2023 £'000	31 December 2022 £'000
Equity – representing one ordinary share in the Subsidiary		
Opening balance	4,087	3,342
Unrealised (loss)/gain on investment at fair value through profit or loss	(48)	745
Total	4,039	4,087
Financial assets at fair value through profit or loss	366,818	435,071

The above represents a 100% interest in the Subsidiary at year end 31 December 2023 (31 December 2022: 100%).

Secured Loan Notes

The Subsidiary has issued a loan note instrument to the Company for a programme of up to £1 billion variable funding notes limited to the cash available by the Company. Each series of loan notes issued has a maximum nominal amount, which is fixed at the date of issue, as well as a base amount and a subscribed amount.

Accounting policy

The Company classifies its investment in the Subsidiary as financial assets at fair value through profit or loss in accordance with IFRS 9 Financial Instruments as set out below.

1. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.
2. Comprises a write-down in respect of the Co-living group loan. The Company has recognised historic losses of £35.1 million in total in respect of the Co-living group loan.
3. Attributable to the timing of the debt service payments and principal indexation of £0.4 million (31 December 2022: £1.4 million) applied to certain loans.

Notes to the financial statements continued

For the year ended 31 December 2023

11. Financial assets at fair value through profit or loss: investment in Subsidiary continued

Financial assets at fair value through profit or loss

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

Upon initial recognition, the Company designates the investment in the Subsidiary as part of 'financial assets at fair value through profit or loss'.

The investment in the Subsidiary is included initially at fair value, which is taken to be its cost (excluding expenses incidental to the acquisition which are written off in the statement of comprehensive income).

All financial assets for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy.

Financial information about the financial assets of the Company is provided by the Investment Manager to the Directors with the valuation of the portfolio being carried out by the independent Valuation Agent.

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

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

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

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

After initial measurement, the Company measures financial instruments classified at fair value through profit or loss at fair value. Subsequent changes in the fair value of financial instruments are recorded in the statement of comprehensive income.

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques used by the independent Valuation Agent include using recent arm's length market transactions, referenced to appropriate current market data, and discounted cash flow analysis, at all times making as much use of available and supportable market data as possible.

An analysis of fair value of financial instruments and further details as to how they are measured is provided in note 17.9.

12. Other receivables and prepayments

	31 December 2023 £'000	31 December 2022 £'000
Other income debtors	—	6
Prepayments	70	60
Unamortised arrangement fee	180	—
Total	250	66

The unamortised arrangement fee has been recognised in other receivables and prepayments at year end due to the RCF being repaid in full during the current year. In the prior year, the unamortised arrangement fee was net against the outstanding RCF, see note 14.

Accounting policy

Other receivables and prepayments are recognised and carried at the lower of their original invoiced value and recoverable amount or, where the time value of money is material, at amortised cost. The Company recognises a loss allowance for expected credit loss on other receivables where necessary.

13. Cash and cash equivalents

	31 December 2023 £'000	31 December 2022 £'000
Cash and cash equivalents	30,936	10,311
Total	30,936	10,311

Accounting policy

Cash comprises cash in hand and demand deposits. Cash equivalents are short term with original maturities of three months or less and highly liquid investments, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

14. Revolving credit facilities

	31 December 2023 £'000	31 December 2022 £'000
Opening balance	32,050	19,899
Proceeds from amounts drawn on the RCF	16,000	51,550
Repayment of amounts drawn on the RCF	(48,050)	(39,399)
RCF drawn at the year end	—	32,050
Loan arrangement fees unamortised	—	(143)
Total	—	31,907

Any amounts drawn under the RCF are to be used in, or towards, the making of investments (including a reduction of available commitment as an alternative to cash cover for entering into forward foreign exchange contracts) in accordance with the Company's investment policy.

On 7 July 2023, the Company extended its £50.0 million RCF with RBSI by twelve months on the same terms, extending the maturity date to August 2024. Interest on amounts drawn under the RCF is charged at SONIA (plus a credit adjustment spread) plus 2.10% per annum. A commitment fee is payable on undrawn amounts at a rate of 0.84% per annum.

The total costs incurred to extend the facility to August 2024 were £286,000, of which £275,000 related to the arrangement fees and £11,000 is associated legal fees. The legal fees are included as arrangement fees for reporting purposes.

A total of £247,000 (31 December 2022: £224,000) of costs were amortised as loan arrangement fees during the year and charged through the statement of comprehensive income, refer to note 7.

The unamortised arrangement fee was net against the outstanding RCF balance in the prior year end. However, due to the RCF being repaid in full during the current year, the unamortised arrangement fee has been recognised in other receivables and prepayments, see note 12.

The RCF with RBSI is secured against the investment in the Subsidiary.

No drawdowns were repayable at 31 December 2023 (31 December 2022: £32.1 million).

The total amount available for drawdown on the RCF is £50.0 million. At the year end a sum of £0.8 million (31 December 2022: £2.3 million) had been drawn down on the RCF as an alternative to cash cover for the six open forward foreign exchange contracts. This has restricted the amount available for drawdown on the RCF to £49.2 million at 31 December 2023.

The RCF includes covenants which are measured in accordance with the facility agreement. The covenants are as follows: loan to NAV value of less than 15%, loan-to-value of eligible assets of less than 25% and an interest cover ratio of six times. During the period of utilisation, the Company was in compliance with all loan covenants in the RCF agreement.

The RCF has a maturity of August 2024. Subject to the outcome of the Discontinuation Vote in May 2024, the Company may wish to seek renewal of this facility.

Notes to the financial statements continued

For the year ended 31 December 2023

14. Revolving credit facilities continued

Leverage

For the purposes of the UK AIFM Regime, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its NAV and is calculated under the gross and commitment methods, in accordance with the UK AIFM Regime.

The Company is required to state its maximum and actual leverage levels, calculated as prescribed by the UK AIFM Regime, at 31 December 2023; figures are as follows:

	Maximum limit	31 December 2023 Actual exposure	31 December 2022 Actual exposure
Leverage exposure			
Gross method	1.25	0.96	1.11
Commitment method	1.25	1.00	1.08

The leverage figures above represent leverage calculated under the UK AIFM Regime methodology as follows:

	31 December 2023 Gross £'000	31 December 2023 Commitment £'000	31 December 2022 Gross £'000	31 December 2022 Commitment £'000
Leverage exposure				
Investments at fair value through profit or loss	366,818	366,818	435,071	435,071
Cash and cash equivalents	—	30,936	—	10,311
Derivative financial instruments ¹	12,130	—	20,656	—
Total exposure under the UK AIFM Regime	378,948	397,754	455,727	445,382
Net assets	396,745	396,745	412,000	412,000
Leverage ratio	0.96	1.00	1.11	1.08

The Company's leverage limit under the UK AIFM Regime is 1.25, which equates to a gearing limit of 25% of NAV. The Company has maintained significant headroom against the limit throughout the year.

15. Other payables and accrued expenses

	31 December 2023 £'000	31 December 2022 £'000
Accruals	473	540
Loan commitment fee accrued	56	58
Loan interest accrued	—	15
Investment management fees	832	914
Total	1,361	1,527

Accounting policy

Other payables and accrued expenses are recognised initially at fair value and subsequently stated at amortised cost using the effective interest method where appropriate.

1. Equivalent position in the underlying assets of derivative financial instruments using the conversion methodologies set out in the UK AIFM regime.

16. Authorised and issued share capital

	31 December 2023		31 December 2022	
	Number of shares	£'000	Number of shares	£'000
Share capital				
Ordinary shares issued at no par value and fully paid				
Shares in issue at beginning of the year	442,033,518	444,414	442,033,518	444,414
Shares issued in the year	—	—	—	—
Total shares in issue	442,033,518	444,414	442,033,518	444,414
Treasury shares				
Shares repurchased and held in treasury at beginning of the year	(7,882,459)	(6,454)	(2,200,000)	(1,807)
Shares repurchased in the year	(8,525,000)	(6,473)	(5,682,459)	(4,647)
Total shares repurchased and held in treasury	(16,407,459)	(12,927)	(7,882,459)	(6,454)
Total ordinary share capital excluding treasury shares	425,626,059	431,487	434,151,059	437,960

The Company's authorised share capital is represented by an unlimited number of no par value ordinary shares. At 31 December 2023, the Company's issued share capital comprised 442,033,518 ordinary shares (31 December 2022: 442,033,518), 16,407,459 of which are held in treasury (31 December 2022: 7,882,459).

The ordinary shares carry the right to dividends out of the profits available for distribution as determined by the Board. Each holder of an ordinary share is entitled to attend meetings of shareholders and, on a poll, to one vote for each share held.

The Company may issue C shares which, when in issue, are classified as a financial liability (refer to note 2.1). There were no C shares in issue at 31 December 2023 (31 December 2022: none).

Accounting policy

Upon issuance of equity shares, the consideration received is included in equity.

Transaction costs incurred by the Company in issuing, acquiring or reselling its own equity instruments are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

No gain or loss is recognised in the statement of comprehensive income in respect of the purchase, sale, issuance or cancellation of the Company's own equity instruments.

17. Financial instruments

The table below sets out the carrying amounts of the Company's financial assets and financial liabilities into categories of financial instruments.

	31 December 2023 £'000	31 December 2022 £'000
Financial assets		
Cash and cash equivalents	30,936	10,311
Other receivables	—	6
Total financial assets at amortised cost ¹	30,936	10,317
Derivative financial instruments	107	243
Financial assets at fair value through profit or loss	366,818	435,071
Total financial assets at fair value through profit or loss	366,925	435,314
Total financial assets	397,861	445,631
Financial liabilities		
Derivative financial instruments	(5)	(257)
Other payables and accrued expenses	(1,361)	(1,527)
Revolving credit facilities	—	(31,907)
Financial liabilities at amortised cost ¹	(1,366)	(33,691)
Total financial liabilities	(1,366)	(33,691)

1. The carrying value of the financial assets and liabilities stated at amortised cost approximates their fair value.

Notes to the financial statements continued

For the year ended 31 December 2023

17. Financial instruments continued

17.1 Derivative financial instruments

Derivative financial assets and liabilities comprise forward foreign exchange contracts for the purpose of hedging foreign currency exposure of the Company to Euro and US Dollar denominated loan investments made by the Subsidiary. The investments represent 3.3% of the portfolio by value at the year end (31 December 2022: 2.4%). The Company intends to utilise the forward foreign exchange contracts on a rolling basis, for the term of the investments.

The table below sets out the forward foreign exchange contracts held by the Company at year end:

31 December 2023	Maturity	Principal amount	Hedged amount	Fair value £'000	
				Financial assets	Financial liabilities
Contract EUR/GBP	4 January 2024	(£4,883,097)	€5,620,445	—	(2)
Contract EUR/GBP	4 January 2024	(£1,980,344)	€2,279,376	—	(1)
Contract EUR/GBP	4 January 2024	(£1,943,495)	€2,236,963	—	(1)
Contract EUR/GBP	22 March 2024	(£158,702)	€182,666	—	—
Contract EUR/GBP	4 October 2024	(£1,141,853)	€1,300,000	—	(1)
Total EUR/GBP		(£10,107,491)	€11,619,450	—	(5)
Contract USD/GBP	4 January 2024	(£2,167,111)	\$2,626,105	107	—
Total USD/GBP		(£2,167,111)	\$2,626,105	107	—
Total		(£12,274,602)		107	(5)

31 December 2022	Maturity	Principal amount	Hedged amount	Fair value £'000	
				Financial assets	Financial liabilities
Contract EUR/GBP	4 January 2023	(£2,192,406)	€2,500,000	—	(26)
Contract EUR/GBP	4 January 2023	(£2,290,922)	€2,610,506	—	(25)
Contract EUR/GBP	8 March 2023	(£4,892,017)	€5,717,300	—	(193)
Contract GBP/EUR	8 March 2023	£5,027,081	(€5,717,300)	59	—
Contract EUR/GBP	22 March 2023	(£1,236,309)	€1,400,614	—	(10)
Contract EUR/GBP	3 October 2023	(£2,234,894)	€2,495,706	—	(3)
Total EUR/GBP		(£7,819,467)	€9,006,826	59	(257)
Contract USD/GBP	4 January 2023	(£2,724,746)	\$3,058,800	184	—
Total USD/GBP		(£2,724,746)	\$3,058,800	184	—
Total		(£10,544,213)		243	(257)

Information on the forward foreign exchange contracts executed post year end can be found in note 19.

Accounting policy

Recognition of derivative financial assets and liabilities takes place when the hedging contracts are entered into. They are initially recognised and subsequently measured at fair value; transaction costs, where applicable, are included directly in finance costs. The Company does not apply hedge accounting and consequently all gains or losses are recognised in the statement of comprehensive income in the net change in fair value of financial assets and financial liabilities through profit or loss.

17.2 Capital management

The Company's capital is represented by share capital comprising issued ordinary share capital and its credit facilities, as detailed in notes 16 and 14 respectively.

The Company may borrow up to 25% of its NAV at any such time borrowings are drawn down. Refer to note 14 for further information.

17.3 Financial risk management objectives

The Company has an investment policy and strategy that sets out the Company's overall investment strategy and general risk management philosophy and has established processes to monitor and control these in a timely and accurate manner. These guidelines are subject to regular operational reviews undertaken by the Investment Manager to ensure the Company's policies are adhered to as it is the Investment Manager's duty to identify and assist with the management of risk. The Investment Manager reports regularly to the Directors who have ultimate responsibility for the overall risk management approach.

The Directors and the Investment Manager ensure that all investment activity is performed in accordance with investment guidelines. The Company's investment activities expose it to various types of risks that are associated with the financial instruments and markets in which it invests. Risk is inherent to the Company's activities and it is managed through a process of ongoing identification, measurement and monitoring. The financial risks to which the Company is exposed include market risk (which includes interest rate risk), credit risk, currency risk and liquidity risk.

As explained in notes 11 and 17, the Company's financial assets and liabilities at fair value through profit or loss comprise the investment in the Subsidiary and derivatives used for the purpose of hedging foreign currency exposure. The Subsidiary is a holding vehicle that exists solely to hold the Company's investments and, therefore, exposure to market risk, interest rate risk, credit risk, liquidity risk and credit and counterparty risk are highly dependent on the performance of the Subsidiary's investments.

Geopolitical and market uncertainties

The Board and the Investment Manager have considered the likely impacts of international and economic uncertainties on the Company, its operations and the investment portfolio. These include, but are not limited to, the war in Ukraine, the ongoing Israel-Hamas conflict, economic instability in the UK as a result of high inflation, interest rate increases and the resulting cost-of-living crisis. The Company is predominantly invested in the UK and has no investments in conflict areas. Equally, no borrowers have been subject to sanctions imposed due to these conflicts.

However, high energy prices continue to impact all sectors and are an area of monitoring for the Investment Manager.

Climate risk

The Investment Manager has carried out a climate risk assessment for each underlying portfolio asset to assess the actual and potential impacts of climate-related risks and opportunities across the portfolio. The analysis considered both physical and transition risks for each asset. The data collated was based upon publicly available data on flood risk and EPC ratings, supplemented by inputs from the Investment Manager's portfolio management team and its investment management team. Based on the climate risk analysis undertaken, the Investment Manager does not currently propose to make any changes to financial forecasts due to climate risk.

17.4 Market risk

The value of the investment in the Subsidiary is based on the aggregate of the NAV of the Subsidiary and the value of the Secured Loan Notes issued by the Subsidiary to the Company. The key driver of the Subsidiary's NAV is the valuation of its portfolio of secured loan facilities issued to the Project Companies.

There is a risk that market movements in interest rates, credit markets, exchange rates and observable yields may decrease or increase the value of the Subsidiary's assets without regard to the assets' underlying performance. The Subsidiary's portfolio of assets is held at fair value, and valued on a semi-annual basis by the independent Valuation Agent. Investments subject to discount rate changes are valued on a quarterly basis. The Company's assets are stable with predictable cash flows and are not exchange traded.

In assessing the expected future cash flows from each investment, the independent Valuation Agent considers the movements in comparable credit markets and publicly available information around each project.

The valuation principles used are based on a discounted cash flow methodology (excluding the loans held at net realisable value); refer to note 17.9 for further information. A fair value for each asset acquired by the Group is calculated by applying a relevant market discount rate to the contractual cash flow expected to arise from each asset.

The independent Valuation Agent determines the discount rate that it believes the market would reasonably apply to each underlying investment taking, inter alia, into account the following significant inputs:

- Pound Sterling interest rates;
- movements of comparable credit markets; and
- observable yield on other comparable instruments.

In addition, the following are also considered as part of the overall valuation process:

- market activity and investor sentiment; and
- changes to the economic, legal, taxation or regulatory environment.

Notes to the financial statements continued

For the year ended 31 December 2023

17. Financial instruments continued

17.4 Market risk continued

The independent Valuation Agent exercises its judgement in assessing the expected future cash flows from each investment. Given that the investments are generally fixed income debt instruments (in some cases with elements of inflation and/or interest rate protection) or other investments with a similar economic effect, the focus of the independent Valuation Agent is assessing the likelihood of any interruptions to the debt service payments, in light of the operational performance of the underlying asset.

The valuations are reviewed by the Investment Manager and the Directors and the subsequent NAV is reviewed by the Investment Manager and the Directors on a quarterly basis.

The table below shows how changes in discount rates affect changes in the valuation of financial assets through profit or loss. The range of discount rate changes has been determined with reference to historic discount rate changes made by the independent Valuation Agent. In view of the change in the average weighted discount rate of 2.1% during the year, the Audit committee considered it was appropriate to increase the sensitivity range to +/- 2.00%. Loans with shorter durations are not sensitive to discount rates.

31 December 2023					
Change in discount rates	(2.00%)	(1.00%)	0.00%	1.00%	2.00%
Valuation of financial assets at fair value through profit or loss (£'000) ^{1,2}	390,270	377,440	366,818	357,041	346,813
Change in value of financial assets at fair value (£'000)	23,452	10,622	—	(9,777)	(20,005)
31 December 2022					
Change in discount rates	(1.00%)	(0.50%)	0.00%	0.50%	1.00%
Valuation of financial assets at fair value through profit or loss (£'000) ^{1,2}	449,822	442,280	435,071	428,171	421,559
Change in value of financial assets at fair value (£'000)	14,751	7,209	—	(6,900)	(13,512)

1. Includes the fair value of the loans held at net realisable value which are not valued on a discounted cash flow basis; see note 17.9 for further details.

2. Including the NAV of the Subsidiary.

17.5 Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing level of market interest rates on the fair value of financial assets, future cash flows and borrowings.

Interest rate risk has the following effect:

Fair value of financial assets

Interest rates are one of the factors which the independent Valuation Agent takes into account when valuing the financial assets. Interest rate risk is incorporated by the independent Valuation Agent into the discount rate applied to the financial assets at fair value through profit or loss. Discount rate sensitivity analysis is disclosed in note 17.4.

Future cash flows

The Company primarily invests, via its Subsidiary, in a diversified portfolio of investments which are secured against, or comprise, contracted, predictable medium to long-term cash flows and/or physical assets. The Group's investments will predominantly take the form of medium to long-term fixed or floating rate loans which are secured against cash flows and/or physical assets which are predominantly UK based.

Interest rate hedging may be carried out to provide protection against falling interest rates in relation to assets that do not have a minimum fixed rate of return acceptable to the Company in line with its investment policy and strategy. The Company has not entered into an interest rate hedging agreement during the year, or in the prior year.

Borrowings

During the year, the Company made use of its RCF, which was used to make investments in accordance with the Company's investment policy. Details of the RCF are given in note 14.

Any potential financial impact of movements in interest rates on the cost of borrowings to the Company is mitigated by the short-term nature of such borrowings.

The drawn amount under the RCF at 31 December 2023 was £nil (31 December 2022: £32.1 million).

The following table shows an estimate of the sensitivity of the drawn amount under the RCF to interest rate changes of 100 and 200 basis points in a twelve month period, with all other variables being held constant. Given there was no RCF drawn down at 31 December 2023, only the comparative figures have been shown below.

31 December 2022					
Change in interest rates	2.0%	1.0%	0%	(1.0%)	(2.0%)
Value of interest expense (£'000)	2,445	2,092	1,772	1,451	1,099
Changes in interest expense (£'000)	673	321	—	(321)	(673)

Other financial assets and liabilities

Bank deposits, payables and accrued expenses are exposed to and affected by fluctuations in interest rates. However, the impact of interest rate risk on these assets and liabilities is not considered material.

17.6 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment it has entered into with the Company. Assets classified at fair value through profit or loss do not have a published credit rating; however, the Investment Manager monitors the financial position and performance of the Group's borrowers on a regular basis to ensure credit risk is appropriately managed.

The Company is exposed to differing levels of credit risk across its assets. Per the statement of financial position, the Company's total exposure to credit risk is £398.1 million (31 December 2022: £445.7 million) represented through its investments, receivables, financial derivatives and cash.

Total cash reserves at year end were £30.9 million (31 December 2022: £10.3 million) and £67.1 million at the date of this annual report. The cash is held at a number of banks that carry a minimum rating of A-2, P-2 or F2 from Standard and Poor's, Moody's and Fitch, respectively, to spread credit risk.

The Group's financial assets at fair value through profit or loss comprise debt and equity securities in the Subsidiary and, therefore, the credit risk of the Company's investments is highly dependent on the performance of the Subsidiary's investment portfolio, which is valued on a semi-annual basis by the independent Valuation Agent. Investments which may be subject to discount rate changes are valued on a quarterly basis. The independent Valuation Agent takes into account the credit risk associated with these investments in their valuation by considering information provided by the Investment Manager on the performance of each underlying loan, including either early or late payments of capital and interest, varying relevant loan facility covenants on the financial, business (commercial) and legal position of each borrower and the expected realisation of assets, disposal of equity interests and/or refinancing of the loan.

The Company's investments are illiquid instruments and have contractual cash flows which are re-assessed by the Investment Manager with each borrower for expected recoverability. After an investment is made, the forecasted cash flows are regularly updated by the Investment Manager with information provided by the borrower for review by the independent Valuation Agent in order to monitor ongoing financial performance.

Any changes in the fair value of the investment portfolio are recognised through profit or loss. Such movements will incorporate a change to fair value resulting from the receipt or expected non-receipt of interest or principal payments, timing changes of cash flows, and the date of valuation and changes to the discount rate. Discount rate sensitivity analysis is disclosed in note 17.4.

Notes to the financial statements continued

For the year ended 31 December 2023

17. Financial instruments continued

17.6 Credit risk continued

Credit risk assessment

Credit risk is considered by the independent Valuation Agent during the origination process and during the ongoing fair valuation process. Depending on the nature of the underlying investments, in addition to payment performance, and compliance with facility covenants, residual credit risk is considered by the independent Valuation Agent with reference to a number of factors for each loan including, but not limited to:

- a) Asset and borrower business risks: ultimately these factors will impact the valuation of the secured assets and/or the borrower's ability to service its loan by altering the quantum and/or risk of cash flows associated with the asset, and the sensitivity of that valuation to such factors.
 - market risks the borrower may be subject to that impact the borrower's net cash flows by altering revenue and cost projections, which may be impacted by the supply and demand for the goods or services associated with a business or asset;
 - risks associated with reliance on third party customers or service providers to monetise an asset (such as operators, tenants), and the impact of any default in payment or service provision by such parties;
 - operational risks that the business or asset may be subject to, including the reliance on the performance of people, processes and systems; and
 - legal and regulatory risks which the business or asset are subject to, such as changes to corporation tax, health and safety and environmental compliance costs or changes to licences and consents.
- b) Financing structure risks: risks resulting from the way the Company as an investor has accessed an asset's cash flows and the associated risks and lender security protections. These include:
 - the seniority of the Group's debt and the ranking of the Group in its subordinated positions, including the structure and nature of shared security, demonstrated by metrics like loan-to-value or cost;
 - the Group's security structure, the perfection of that security, the control that the borrower has over the underlying assets, and its ability to enforce that security along with the impact of enforcing against that security;
 - the financial position of the borrower and the potential impacts on security guarantees;
 - any illiquidity premium associated with the liquidity of the financing instrument; and
 - the nature of repayment (bullet or amortising) and the conditions required to meet these payments (such as a refinance, asset disposal or otherwise).

This bottom-up consideration of credit risk for each loan, based on the specific information provided by the Investment Manager for each borrower and other relative benchmarks such as comparable bond pricing and market analysis, taken with capital asset pricing model analysis, enables the independent Valuation Agent to conclude their assessment on the likely recoverability of the forecast cash flows and to determine an appropriate discount rate and/or appropriate credit impairment to apply to each loan.

At 31 December 2023, eleven loans, totalling 22.5% of the fair value of the portfolio, ten property and social infrastructure loans and one asset finance loan have missed interest and/or principal payments and therefore remain outstanding beyond their contractual maturities. These loans will continue to be monitored by the Investment Manager with regular reporting to the Board. The concentration of credit risk within the Group's investment portfolio is mitigated by its diverse exposure to a range of borrowers across 42 loans, multiple assets, sectors and strategies.

At year end, the concentration of credit risk to any one key relationship counterparty did not exceed 20% (31 December 2022: <20%) of the Group's total assets. The Group had exposure to four key relationship counterparties (31 December 2022: five) which together represent 58% (31 December 2022: 56%) of the loans in the portfolio by value. The loans also lie with different borrower entities, and in some cases with different ownership structures, within these relationships across different projects and assets.

Since the Company's IPO in 2015, the Investment Manager has pursued an investment strategy that, amongst other things, has sought to diversify risk across various sectors and borrowers. Following the decision by the Board to restrict investment, and, subject to the approval by shareholders of the proposed Discontinuation Vote and the proposal to pursue an Orderly Realisation, the size and value of the Company's portfolio will reduce as investments are realised and concentrated in fewer holdings, and the mix of loans and underlying asset exposure will be affected accordingly. This may adversely affect the overall performance of the Company's portfolio as it is exposed to a portfolio with lower diversification.

17.7 Currency risk

The Group's investments at 31 December 2023 were denominated in Pound Sterling, except for five investments which are denominated in Euros and one investment which is denominated in USD (31 December 2022: four Euro-denominated investments and one USD-denominated investment). The investments are secured against Euro-valued and USD-valued contracted cash flows. The Company's only currency exposure is through the trading activities of its investee companies. The Company engages in currency hedging, in the form of five forward foreign exchange contracts, to reduce the risk of adverse movements in currency exchange rates in relation to its non-Pound Sterling denominated investments. Realised and unrealised gains or losses on forward foreign exchange contracts are disclosed in note 3.

As an alternative to cash cover/margin required on these forward foreign exchange contracts, the Company has made use of its RCF, as disclosed in note 14.

Notes to the financial statements continued

For the year ended 31 December 2023

17. Financial instruments continued

17.8 Liquidity risk

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous. The Company is a closed-ended investment company and therefore assets do not need to be liquidated to meet redemptions, and sufficient liquidity is maintained to meet obligations as they fall due. The Company ensures it maintains adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. During the year ended 31 December 2023, investments made by the Group were funded by Company cash reserves, amounts received from repayments and the utilisation of the RCF.

The table below analyses the Company's assets and liabilities in relevant maturity groupings based on the remaining period from 31 December 2023 to the contractual maturity date. The Directors have elected to present both assets and liabilities in the liquidity disclosure below to illustrate the net liquidity exposure of the Company. The Board has amended the presentation of the analysis below to reflect the timeframe used in the stress testing and viability analysis. Further information on viability can be found on page 73.

All cash flows in the table below are presented on an undiscounted basis.

31 December 2023	Less than one month £'000	One to three months £'000	Three to twelve months £'000	Greater than twelve months and not later five years £'000	More than five years £'000	Total £'000
Financial assets						
Cash and cash equivalents	30,936	—	—	—	—	30,936
Other receivables and prepayments	9	8	233	—	—	250
Financial assets at fair value through profit or loss	33,294	111,593	61,843	158,130	128,249	493,109
Total financial assets	64,239	111,601	62,076	158,130	128,249	524,295
Financial liabilities						
Derivative financial instruments	—	(11,133)	(1,142)	—	—	(12,275)
Other payables and accrued expenses	(3)	(1,154)	(204)	—	—	(1,361)
Total financial liabilities	(3)	(12,287)	(1,346)	—	—	(13,636)
Net exposure	64,236	99,314	60,730	158,130	128,249	510,659

31 December 2022	Less than one month £'000	One to three months £'000	Three to twelve months £'000	Greater than twelve months £'000	Total £'000
Financial assets					
Cash and cash equivalents	10,311	—	—	—	10,311
Derivative financial instruments	—	5,027	—	—	5,027
Other receivables and prepayments	6	7	53	—	66
Financial assets at fair value through profit or loss	28,581	15,563	75,743	477,388	597,275
Total financial assets	38,898	20,597	75,796	477,388	612,679
Financial liabilities					
Derivative financial instruments	(7,208)	(6,128)	(2,235)	—	(15,571)
Other payables and accrued expenses	(51)	(203)	(3)	—	(257)
Revolving credit facilities	—	—	(32,050)	—	(32,050)
Total financial liabilities	(7,259)	(6,331)	(34,288)	—	(47,878)
Net exposure	31,639	14,266	41,508	477,388	564,801

The Directors' assessment of the Company's ability to continue as a going concern, in note 2.1, includes an assessment of liquidity risk. The Board has concluded that the Company will be able to generate sufficient cash resources to settle its obligations in full as they fall due for a period of at least twelve months.

17.9 Fair values of financial assets

Valuation of financial instruments

The Company measures fair values using the following fair value hierarchy that reflects the significance of inputs used in making the measurements. Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to their fair value measurement of the relevant assets as follows:

- Level 1 – valued using quoted prices unadjusted in active markets for identical assets or liabilities;
- Level 2 – valued by reference to valuation techniques using observable inputs for the asset or liability other than quoted prices included in Level 1; and
- Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data for the asset or liability.

An investment is always categorised as Level 1, 2 or 3 in its entirety. In certain cases the fair value measurement for an investment may use a number of different inputs that fall into different levels of the fair value hierarchy. In such cases, an investment level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgement and is specific to the investment.

The independent Valuation Agent has carried out semi-annual fair valuations of the financial assets of the Subsidiary (quarterly for investments which may be subject to discount rate changes). The same discount rates, determined by the independent Valuation Agent, are applied to the future cash flows of the Secured Loan Notes issued by the Subsidiary to the Company to determine the fair value of the assets of the Company.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The tables below set out fair value measurements of financial instruments at the year end, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the value recognised in the statement of financial position. All fair value measurements are recurring.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31 December 2023				
Financial assets at fair value through profit or loss	—	—	366,818	366,818
Derivative financial instruments (assets)	—	107	—	107
Total	—	107	366,818	366,925

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31 December 2023				
Derivative financial instruments (liabilities)	—	(5)	—	(5)
Total	—	(5)	—	(5)

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31 December 2022				
Financial assets at fair value through profit or loss	—	—	435,071	435,071
Derivative financial instruments (assets)	—	243	—	243
Total	—	243	435,071	435,314

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31 December 2022				
Derivative financial instruments (liabilities)	—	(257)	—	(257)
Total	—	(257)	—	(257)

The derivative financial instruments are classified as Level 2 as observable market data and are used for valuation and pricing.

The Directors have classified the financial instruments relating to 'Investments in Subsidiary' as Level 3 due to the limited number of comparable and observable market transactions in this sector. The primary input for Level 3 at year end is the discount rates for these investments (excluding the loans held at net realisable value which are not valued on a discounted cash flow basis; refer to page 116 for further information); discount rates are considered to be primarily modelled rather than market observed. The secured loan facilities that the Subsidiary has invested in are also classified as Level 3.

Notes to the financial statements continued

For the year ended 31 December 2023

17. Financial instruments continued

17.9 Fair values of financial assets continued

The following table shows a reconciliation of all movements in the fair value of financial instruments categorised within Level 3 between the beginning and end of the year:

	31 December 2023 £'000	31 December 2022 £'000
Opening fair value of financial instruments at fair value through profit or loss	435,071	446,989
Investment in Subsidiary	32,655	101,985
Capital repayments from Subsidiary	(93,512)	(95,622)
Realised loss on financial assets at fair value through profit or loss:		
Debt – Secured Loan Notes up to £1,000,000,000	(3,091)¹	(1,326)
Unrealised (loss)/gain on financial assets at fair value through profit or loss ² :		
Debt – Secured Loan Notes up to £1,000,000,000	(4,257)	(17,700)
Equity – representing one ordinary share in the Subsidiary	(48)	745
Closing fair value of financial instruments at fair value through profit or loss	366,818	435,071

1. Comprises a write-down in respect of the Co-living group loan.

2. Refer to note 11 for further information.

For the Company's financial instruments categorised as Level 3, changing the discount rate used to value the underlying instruments alters the fair value. In determining the discount rate for calculating the fair value of financial assets at fair value through profit or loss, reference is made to Pound Sterling interest rates, movements of comparable credit markets and observable yields on comparable instruments. Hence, movements in these factors could give rise to changes in the discount rate. A change in the discount rate used to value the Level 3 investments would have the effect on the valuation as shown in the table in note 17.4.

The fair value of the investment in the Subsidiary is based on the aggregate of the NAV of the Subsidiary and the value of the Secured Loan Notes issued by the Subsidiary. At 31 December 2023, the NAV of the Subsidiary was as follows:

	31 December 2023 £'000	31 December 2022 £'000
GABI UK ¹	4,039	4,087

1. Refer to note 11 for further information.

The key driver of the NAV of the Subsidiary is the valuation of its portfolio of secured loan facilities issued to the Project Companies.

The Secured Loan Notes issued by the Subsidiary that the Company has subscribed for, are valued on a discounted cash flow basis in line with the model used by the independent Valuation Agent, applying the following discount rates:

	Fair value ¹ £'000	Valuation technique	Key unobservable inputs	Discount rate
Financial assets at fair value through profit or loss – 31 December 2023	359,092²	Discounted cash flow	Discount rate	10.5%³
Financial assets at fair value through profit or loss – 31 December 2023	3,687⁴	Net realisable value	Discount rate	—
Financial assets at fair value through profit or loss – 31 December 2022	430,671 ²	Discounted cash flow	Discount rate	8.4% ³
Financial assets at fair value through profit or loss – 31 December 2022	4,400 ⁴	Net realisable value	Discount rate	—

1. Including the NAV of the Subsidiary.

2. Balance excludes the fair value of the loans held at net realisable value.

3. Weighted average discount rate⁵.

4. Fair value of the loans held at net realisable value which are not valued on a discounted cash flow basis, see page 116 for further information.

5. Alternative performance measure – refer to pages 142 to 144 for definitions and calculation methodology.

The investments in Project Companies held by the Subsidiary (excluding the loans held at net realisable value, refer below) are valued on a discounted cash flow basis, in line with the methodology used by the independent Valuation Agent. At the year end, discount rates ranged from 7-14% (31 December 2022: 6-13%).

At 31 December 2023, three loans were held at net realisable value. The Group's Co-living group loan was valued at £1.2 million (31 December 2022: £4.4 million), representing an estimate of amounts recoverable relating to retained cash within the corporate structure, the release of which is contingent upon the outcome of ongoing planning and tax considerations, currently under review by the relevant authorities. One of the football finance loans was valued at £0.5 million (31 December 2022: £2.3 million), based on the guaranteed portion of the loan, which is held at par, with the unguaranteed portion written down to £nil due to uncertainty around repayments. One of the multi-use community facility loans was valued at £1.9 million (31 December 2022: £2.8 million).

The Directors reviewed the valuation report provided by the independent Valuation Agent which references the inputs used in the valuation of investments and the appropriateness of their classification in the fair value hierarchy. In particular, the Directors are satisfied that the significant inputs in the determination of the discount rate adopted by the independent Valuation Agent are pursuant to the independent Valuation Agent's engagement letter. Should the valuation approach change, causing an investment to meet the characteristics of a different level of the fair value hierarchy, it will be reclassified accordingly.

During the year, there were no transfers of investments between levels.

Directors' assessment

The Directors met with the independent Valuation Agent during the year and post year end to discuss and challenge the following:

- the rationale for the level of discount rate increases determined by the independent Valuation Agent for each loan being lower than the observed increase in risk-free rates;
- how the independent Valuation Agent's assessment of the likelihood of full recovery of loans is reflected in their fair valuation, based on information received from the Investment Manager;
- how the structuring of a given loan, the security and the extent of control from the available enforcement arrangements and level of subordination is reflected by the independent Valuation Agent in their discount rate;
- the extent to which loans for which contractual repayment is either imminent or overdue are insensitive to discount rate changes and the impact of this on fair valuation;
- the relative disparity between the valuation of assets held for sale versus the fair valuation of assets held to maturity; and
- the appropriateness of applying a discounted cash flow valuation methodology or an alternative such as assumed realisation based on estimated recovery and/or appropriate impairment.

Based on these discussions, the Directors are satisfied that the methodology adopted by the independent Valuation Agent to fair value the loans is reasonable. The impact on fair value attributable to any missed capital and/or interest payments for loans that are past their facility maturity date and any other change in credit risk will continue to be monitored by the Investment Manager and reviewed regularly with the Board.

Notes to the financial statements continued

For the year ended 31 December 2023

18. Related party disclosures

As defined by IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Subsidiary companies are also deemed to be related parties as they are members of the same group of companies.

Directors

The Directors of the Company are considered to be key management personnel of the Company. Directors' remuneration for the year (including reimbursement of Company-related expenses) totalled £259,000 (31 December 2022: £232,000).

At 31 December 2023, liabilities in respect of these services amounted to £63,000 (31 December 2022: £58,000).

At 31 December 2023, the Directors of the Company held directly or indirectly, and together with their family members, 161,171 ordinary shares (31 December 2022: 161,171).

Alex Ohlsson is the managing partner of Carey Olsen, the Company's Jersey legal advisers. Carey Olsen has provided legal services to the Company during the year. Carey Olsen maintains procedures to ensure that the Chairman has no involvement in the provision of legal services to the Company. The Company maintains procedures to ensure that the Chairman takes no part in any decision to engage the services of Carey Olsen. During the year, the aggregate sum of £10,000 (31 December 2022: £2,000) was paid to Carey Olsen in respect of legal work undertaken, of which £nil (31 December 2022: £nil) is outstanding at year end.

Investment Manager

The Company is party to an investment management agreement with the Investment Manager, which was most recently amended and restated in December 2020, pursuant to which the Company has appointed the Investment Manager to provide discretionary portfolio and risk management services relating to the assets on a day-to-day basis in accordance with its investment objective and policies, subject to the overall control and supervision of the Directors.

As previously announced, no material amendments or extensions of facilities to existing borrowers will be made ahead of the Discontinuation Vote at the 2024 AGM without the Board's prior consent.

A procedure has been put in place between the Board and the Investment Manager to manage this.

It is the Board's current intention that the Investment Manager is retained to provide investment management services in connection with the Orderly Realisation. The Board considers the Investment Manager is best placed to provide such services taking into account its knowledge and experience of the Company's investment portfolio.

To this effect, the Board has commenced discussions with the Investment Manager in respect of proposals for the provision of investment management services during the Orderly Realisation under revised terms that seek to incentivise the Investment Manager to achieve the objective of maximising shareholder returns in a timely manner.

In due course the Investment Manager will engage with shareholders to present its plan for the Orderly Realisation. Further information will be set out in the Orderly Realisation Circular.

As a result of the responsibilities delegated under this investment management agreement, the Company considers it to be a related party by virtue of being 'key management personnel'. Under the terms of the investment management agreement, the notice period of the termination of the Investment Manager by the Company is twelve months.

For its services to the Company, the Investment Manager receives an investment management fee which is calculated and paid quarterly in arrears at an annual rate of 0.9% per annum of the prevailing NAV of the Company minus the value of the cash holdings of the Company pro rata for the period for which such cash holdings have been held. The Investment Manager receives an annual fee of £25,000 in relation to its role as the Company's AIFM plus annual increases in accordance with the rate of the RPI.

During the year, the Company incurred £3,480,000 (31 December 2022: £3,752,000) in respect of the services outlined above; £3,448,000 (31 December 2022: £3,724,000) in respect of investment management services and £32,000 (31 December 2022: £28,000) in respect of AIFM services provided by the Investment Manager. At 31 December 2023, liabilities in respect of these services amounted to £840,000 (31 December 2022: £921,000).

The Investment Manager, at its discretion, is entitled to an arrangement fee of up to 1% of the value of each investment made by the Company. The Investment Manager typically expects the cost of any such fee to be covered by the borrowers, and not the Company. Of the current portfolio, such fee in respect of 52 of the Group's investments has been met and paid by borrowers.

During the year, the Investment Manager received £243,000 (31 December 2022: £730,000) from arrangement fees which have been met by the borrowers and £nil (31 December 2022: £328,000) from arrangement fees which have been met by the Company. To the extent any arrangement fee negotiated by the Investment Manager with a borrower exceeds 1%, the benefit of any such excess is paid to the Company.

A number of the Directors and employees of the Investment Manager also sit on the board of the Subsidiary.

At 31 December 2023, the key management personnel of the Investment Manager held directly or indirectly, and together with their family members, 2,156,040 ordinary shares in the Company (31 December 2022: 1,113,097 ordinary shares).

At 31 December 2023, the Directors and/or shareholders of the Investment Manager, and their family members, directly or indirectly own an equity interest in the Subsidiary's student accommodation investments. These investments are valued by the independent Valuation Agent in line with the rest of the portfolio and were approved by the Board at the time of acquisition.

Subsidiary

At 31 December 2023, the Company owns a 100% (31 December 2022: 100%) controlling stake in the Subsidiary. The Subsidiary is considered to be a related party by virtue of being part of the same group. The Company indirectly owns 100% of GABI Housing Limited, GABI GS Limited and GABI Housing 2 Limited; for further information, refer to note 1.

The following tables disclose the transactions and balances between the Company and the Subsidiary. Please refer to note 11 for further details about the transactions during the year:

	31 December 2023 £'000	31 December 2022 £'000
Transactions		
Intercompany income received		
Other income	1,217	1,240
Arrangement fee income	109	258
Loan note interest realised	31,747	31,945
Total	33,073	33,443
Balances		
Intercompany balances receivable	—	—
Principal value of intercompany holdings within financial assets at fair value through profit or loss	370,435	469,463

Notes to the financial statements continued

For the year ended 31 December 2023

19. Subsequent events after the report date

The following events occurred post year end:

- on 8 February 2024, the Company announced a fourth interim dividend of 1.58125 pence per share amounting to £6.7 million which was paid on 15 March 2024 to ordinary shareholders on the register at 16 February 2024;
- on 14 March 2024, the Company announced the outcome of the Strategic Review, a process whereby the Board engaged extensively with shareholders in seeking feedback to inform its decision-making process. Accordingly, the Board has reached the conclusion that shareholder value will be best served by a proposed Orderly Realisation and return of capital to shareholders. Shareholders will be given the opportunity to vote on a discontinuation of the Company at the Company's AGM on 20 May 2024. In addition, subject to the approval by shareholders of the Discontinuation Vote, the Board intends to convene an EGM to be held immediately after the 2024 AGM at which it will seek shareholder approval for certain resolutions required to facilitate the Orderly Realisation. Further information will be included in the Orderly Realisation Circular which will be published on 2 May 2024;
- the Company's forward foreign exchange contracts shown in note 17.1 matured and were replaced on the same terms as the existing contracts;
- the Group received 22 repayments totalling £41.4 million of which £27.4 million was the early part-repayment of five property lending group loans for which an extension of the maturity date to 30 June 2024 for the remaining balance of £44.3 million was agreed with the borrower and announced by the Company post period end;
- the independent Valuation Agent decreased the fair value of six problem and watchlist loans by £8.5 million and one further conflicted loan by £1.7 million in their valuation report as at 31 March 2024; and
- at the date of the report, principal amounts of £50.3 million in relation to seven loans representing 14.7% of the portfolio were past due for repayment. In addition, interest amounting to £5.9 million in relation to seven loans had missed their contractual payment dates. The Investment Manager is proactively working with the relevant borrowers and has either agreed or is considering short-term extensions to facilitate an orderly redemption of these facilities and the settlement of interest due, where appropriate.

20. Ultimate controlling party

It is the view of the Board that there is no ultimate controlling party.

Shareholder information

Key dates

March

Payment of fourth interim dividend

April

Annual results announced

May

Annual General Meeting

June

Payment of first interim dividend

August

Payment of second interim dividend

September

Interim results announced

December

Payment of third interim dividend

Company's year end

NAV publication

The Company's NAV is released to the LSE on a quarterly basis and is published on the Company's website. From 30 June 2024, the Company will publish NAVs on a half-yearly basis.

Further information

Copies of the Company's annual and half-yearly reports, quarterly investor reports, stock exchange announcements and further information on the Company can be obtained from the Company's website.

Warning to users of this report

This report is intended solely for the information of the person to whom it is provided by the Company, the Investment Manager or the Administrator. This report is not intended as an offer or solicitation for the purchase of the shares in the Company and should not be relied on by any person for the purpose of accounting, legal or tax advice or for making an investment decision. The payment of dividends and the repayment of capital are not guaranteed by the Company. Any forecast, projection or target is indicative only and not guaranteed in any way, and any opinions expressed in this report are not statements of fact and are subject to change. Neither the Company nor the Investment Manager are under any obligation to update such opinions.

Past performance is not a reliable indicator of future performance, and investors may not get back the original amount invested. Unless otherwise stated, the source for all information contained in this report is the Investment Manager and the Administrator. Information contained in this report is believed to be accurate at the date of publication, but neither the Company, the Investment Manager and the Administrator give any representation or warranty as to the report's accuracy or completeness. This report does not contain and is not to be taken as containing any financial product advice or financial product recommendation. Neither the Company, the Investment Manager and the Administrator accept any liability whatsoever for any loss (whether direct or indirect) arising from the use of this report or its contents.

Portfolio information (unaudited)

Loan details		Valuation	Valuation	Principal balance	Interest	Total capitalised		
Name	Country	£'000	%	(including capitalised)	balance	(since inception)	Seniority	Currency
				£'000	£'000	£'000		
Conflicted loans (Note 1):			20.6%					
Student Accom 5	USA	2,297	0.6%	2,313	61	413	Subordinated	GBP
Student Accom 2	Australia	22,563	6.2%	20,906	1,851	4,914	Subordinated	GBP
Student Accom 8	USA	15,948	4.4%	15,812	136	1,859	Subordinated	GBP
Student Accom 7	USA	14,235	3.9%	13,807	441	4,034	Subordinated	GBP
Student Accom 3	Ireland	12,291	3.4%	12,001	290	6,062	Subordinated	GBP
Student Accom 6	UK	7,304	2.0%	7,190	165	890	Subordinated	GBP
Non-conflicted problem loans:			4.3%					
Property Co	UK	12,553	3.5%	15,994	1,003	—	Senior	GBP
Social 1	UK	1,915	0.5%	3,400	205	120	Senior	GBP
Property Co 13	UK	1,246	0.3%	1,246	—	—	Senior	GBP
Non-conflicted watchlist loans:			1.2%					
Social 2	UK	3,956	1.1%	6,136	—	1,185	Senior	GBP
Contract Income 6	Italy	526	0.1%	1,577	29	—	Senior	EUR
Property lending group loans:			19.9%					
Development Fin Co 6	UK	34,057	9.4%	34,500	14	—	Senior	GBP
Bridging Co 2	UK	18,426	5.1%	18,651	9	—	Senior	GBP
Development Fin	UK	18,285	5.0%	18,500	8	—	Senior	GBP
Mortgage Co 3	UK	1,006	0.3%	1,000	6	—	Subordinated	GBP
Mortgage Co 2	UK	383	0.1%	381	2	—	Subordinated	GBP
Care home loans:			17.0%					
Care Homes Co 2	UK	15,461	4.3%	15,928	7	—	Senior	GBP
Care Homes Co 3	UK	14,630	4.0%	15,070	7	—	Senior	GBP
Care Homes Co 5	UK	14,284	3.9%	14,778	0	2,225	Senior	GBP
Care Homes Co 1	UK	11,440	3.2%	11,767	5	—	Senior	GBP
Care Homes Co 4	UK	5,935	1.6%	5,940	3	—	Subordinated	GBP
Bridging Co property loan:			5.8%					
Bridging Co 1	UK	21,093	5.8%	21,987	14	—	Senior	GBP
Other property financing loans:			6.2%					
Property Co 7	UK	13,691	3.8%	14,700	41	—	Subordinated	GBP
Property Co 8	UK	8,674	2.4%	8,664	27	—	Subordinated	GBP
Other loans by sector:			5.7%					
Football Finance 8	UK	14,330	3.9%	14,000	334	—	Senior	GBP
Football Finance 6	Italy	1,839	0.5%	1,690	39	—	Senior	EUR
Contract Income 7	UK	1,798	0.5%	1,781	17	—	Senior	GBP
Football Finance 9	UK	1,784	0.5%	1,630	154	—	Senior	GBP
Football Finance 7	Brazil	1,098	0.3%	956	98	—	Senior	EUR
Property Co 2			4.1%					
Property Co 2	UK	15,000	4.1%	17,514	6	636	Senior	GBP
Property Co 16			9.5%					
Property Co 16	UK	10,285	2.8%	10,413	—	1,813	Subordinated	GBP
Property Co 20	Ireland	9,503	2.6%	9,527	—	852	Senior	GBP
Property Co 19	UK	6,039	1.7%	6,185	393	—	Senior	GBP
Property Co 21	Ireland	4,446	1.2%	4,446	3	—	Senior	EUR
Property Co 6	UK	3,017	0.8%	3,000	17	—	Subordinated	GBP
Property Co 18	UK	589	0.2%	578	13	52	Senior	GBP
Property Co 17	UK	518	0.1%	504	14	—	Senior	GBP
O&M Company			1.5%					
O&M Company		5,577	1.5%	5,441	2	—	Senior	GBP
Asset Finance Co 5			4.1%					
Asset Finance Co 5	UK	9,236	2.6%	9,231	5	—	Senior	GBP
Boiler Co	UK	3,635	1.0%	3,710	2	—	Senior	GBP
Music Finance 1	Australia	1,766	0.5%	1,646	2	—	Senior	USD
Asset Finance Co 2	UK	155	0.0%	159	1	—	Senior	EUR
Portfolio summary totals		362,814	100.0%	374,659	5,424	25,055		

1. Conflicted loans: where the Investment Manager or any shareholders, directors or employees of the Investment Manager are directly or indirectly interested in any entity or asset in relation to the investment.

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Maturity date	Current interest rate %	Current interest treatment	Discount rate %	Sector	Problem or watchlist	Notes
20-Apr-23	9.50%	Pay	14.25%	Social infrastructure	Problem 4	
31-Dec-23	11.75%	Pay	12.75%	Social infrastructure	Watchlist 1	
31-Aug-27	11.51%	Capitalise	11.51%	Property		
31-Dec-24	12.67%	Capitalise	12.67%	Property	Watchlist 4	
30-Jun-32	9.50%	Pay	9.50%	Social infrastructure		
31-Dec-23	9.00%	Pay	10.00%	Social infrastructure		
31-Dec-36	6.30%	Pay	10.30%	Social infrastructure	Problem 2	
31-Mar-29	8.00%	Pay	39.98%	Social infrastructure	Problem 3	
31-Mar-24	0.00%	Pay	0.00%	Property	Problem 1	
31-Dec-32	8.00%	Capitalise	13.00%	Social infrastructure	Watchlist 2	
30-Jun-24	2.03%	Pay	4.00%	Asset finance	Watchlist 3	Agreed maturity extension from 31 March 2024 to 30 June 2024
30-Jun-24	7.50%	Pay	12.99%	Property	}	Repayments of £27.4 million post year end Agreed extension of maturity date for remaining to 30 June 2024
30-Jun-24	7.80%	Pay	12.99%	Property		
30-Jun-24	8.00%	Pay	12.99%	Property		
30-Sep-24	12.99%	Pay	12.99%	Property		
30-Sep-24	12.99%	Pay	12.99%	Property		
30-Jun-37	8.00%	Pay	8.50%	Social infrastructure		
30-Jun-38	8.00%	Pay	8.50%	Social infrastructure		
30-Jun-38	8.75%	Capitalise	9.25%	Social infrastructure		
31-Mar-36	8.00%	Pay	8.50%	Social infrastructure		
31-Mar-24	9.30%	Pay	9.80%	Social infrastructure		Loan was repaid in full post year end in April 2024
30-Nov-27	7.60%	Pay	8.85%	Property		
31-Mar-24	9.28%	Pay	12.99%	Property		
30-Apr-24	9.28%	Pay	9.53%	Property		
30-Sep-27	8.91%	Pay	8.91%	Asset finance		
31-Dec-25	9.00%	Pay	9.00%	Asset finance		
31-Jul-24	8.23%	Pay	8.23%	Asset finance		
30-Nov-24	8.00%	Pay	8.00%	Asset finance		
30-Sep-24	6.08%	Pay	6.08%	Asset finance		
31-Dec-46	6.00%	Pay	7.75%	Social infrastructure		
31-Aug-24	9.50%	Capitalise	10.75%	Property		
31-May-24	10.35%	Capitalise	10.60%	Property		Agreed repayment date 31 May 2024
31-Dec-52	6.00%	Pay	6.75%	Property		
31-Mar-26	8.25%	Pay	8.50%	Property		
31-Dec-26	9.50%	Pay	9.50%	Property		
31-Aug-24	9.00%	Capitalise	9.50%	Property		
30-Sep-24	11.50%	Pay	11.50%	Property		
30-Sep-30	7.80%	Pay	7.00%	Energy & infrastructure		
31-Dec-26	8.70%	Pay	8.70%	Asset finance		
31-Dec-25	7.80%	Pay	9.80%	Asset finance		
30-Jun-27	8.10%	Pay	8.10%	Asset finance		
31-Dec-24	6.50%	Pay	7.00%	Asset finance		
	8.68%		10.63%			

Alternative performance measures (unaudited)

The Board and the Investment Manager assess the Company's performance using a variety of measures that are not defined under IFRS Accounting Standards and are therefore classed as APMs. Where possible, reconciliations to IFRS Accounting Standards are presented from the APMs to the most appropriate measure prepared in accordance with IFRS.

All items listed below are IFRS Accounting Standards financial statement line items unless otherwise stated. APMs should be read in conjunction with the statement of comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows, which are presented in the financial statements section of this report. The APMs below may not be directly comparable with measures used by other companies.

Adjusted earnings/EPS

In respect of a period, the EPS is adjusted to remove the impact of fair valuation movements of investments in such period arising from: (i) discount rate adjustments; and (ii) upward or downward revaluations associated with the performance of investments.

	For the year ended 31 December 2023 £'000	For the year ended 31 December 2023 (Pence per share)	For the year ended 31 December 2022 £'000	For the year ended 31 December 2022 (Pence per share)
Adjusted EPS				
Basic and diluted earnings	18,264	4.27	7,687	1.75
Increase/(decrease) to weighted average discount rates ¹	6,360	1.49	6,775	1.54
Write-down of the Co-living group loan	3,091	0.72	14,438	3.29
Other downward revaluations associated with the performance of investments	2,310	0.54	—	—
Adjusted earnings/EPS	30,025	7.02	28,900	6.58

Annualised loss ratio

A measure of the Company's ability to preserve the capital value of its investments over the long term. It is calculated as total aggregate downward revaluations divided by total invested capital since IPO expressed as a time weighted annual percentage.

	For the year ended 31 December 2023	For the year ended 31 December 2022
Total aggregate downward revaluations since IPO	43,063	38,544
Total invested capital since IPO	1,057,906	1,017,791
Percentage (annualised)	0.50%	0.48%

Annualised total shareholder return since IPO

Total shareholder return¹ expressed as a time weighted annual percentage.

This is a standard performance metric across the investment industry and allows comparability across the sector.

Source: Bloomberg

Average LTV

The ratio of a loan or mortgage to a property valuation, averaged across the Company's property investments, expressed as a percentage. This ratio demonstrates the headroom in the underlying asset values to absorb negative movements in property valuations.

1. Refer to relevant APM on page 144 for further information.

Average NAV

The average NAV of the Company over the reporting year.

Quarter ended	NAV per share 31 December 2023 (pence)	NAV per share 31 December 2022 (pence)	For the year ended 31 December 2023 £'000	For the year ended 31 December 2022 £'000
31 March 2023/2022	95.13	99.36	407,010	437,005
30 June 2023/2022	93.96	98.45	399,921	433,031
30 September 2023/2022	93.36	96.18	397,373	423,016
31 December 2023/2022	93.21	94.90	396,745	412,000
Average NAV	93.92	97.22	400,262	426,263

Discount/average discount

The amount, expressed as a percentage, that the Company's shares trade below the prevailing NAV per share. This metric is shown at a point in time or as an average over the stated period.

Dividend cover ratio

Ratio of earnings to dividends calculated as dividends per share divided by EPS.

	For the year ended 31 December 2023	For the year ended 31 December 2022
Total profit and comprehensive income (£'000)	18,264	7,687
Weighted average number of shares ¹	427,242,221	439,291,385
Basic EPS (p)	4.27	1.75
Adjusted EPS ¹ (p)	7.02	6.58
Dividends (p)	6.325 ²	6.325
Dividend cover ratio (basic)	0.68	0.28
Dividend cover ratio (adjusted)	1.11	1.04

Dividend yield

Total dividend per share declared for the year annualised, relative to the closing share price at the year end, expressed as a percentage.

IRR

IRR is the interest rate at which the net present value of all the cash flows (both positive and negative) from a project or investment equal zero.

The internal rate of return is used to evaluate the attractiveness of a project or investment.

Ongoing charges ratio

Ongoing charges ratio (previously "total expense ratios" or "TERs") is a measure of the annual percentage reduction in shareholder returns as a result of recurring operational expenses assuming markets remain static and the portfolio is not traded.

This is a standard performance metric across the investment industry and allows comparability across the sector and it is calculated in accordance with the AIC's recommended methodology.

1. Refer to relevant APM on page 142 for further information.

2. Total dividends of 6.325 pence includes a quarterly dividend of 1.58125 pence per share for the quarter to 31 December 2023, which was declared post year end.

Alternative performance measures (unaudited) continued

Ongoing charges ratio continued

	For the year ended 31 December 2023 £'000	For the year ended 31 December 2022 £'000
Ongoing charges		
Investment management fees	3,448	3,724
Directors' remuneration	259	232
Operating expenses	1,599	1,759
Total expenses	5,306	5,715
Non-recurring expenses	(59)	(492)
Total	5,247	5,223
Average NAV ¹	400,262	426,263
Ongoing charges ratio	1.3	1.2

Premium/average premium

The amount, expressed as a percentage, that the Company's shares trade above the prevailing NAV per share. This metric is shown at a point in time or as an average over the stated period.

Total NAV return

A measure of the performance of a company's NAV over the stated period. It combines NAV movements and dividends to show the total return to the shareholder expressed as a percentage. It assumes that dividends are reinvested in the shares at the time the shares are quoted ex-dividend.

This is a standard performance metric across the investment industry and allows comparability across the sector.

Source: Bloomberg.

Total shareholder return

A measure of the performance of a company's shares over the stated period. It combines share price movements and dividends to show the total return to the shareholder expressed as a percentage. It assumes that dividends are reinvested in the shares at the time the shares are quoted ex-dividend.

This is a standard performance metric across the investment industry and allows comparability across the sector.

Source: Bloomberg.

Weighted average annualised yield

The weighted average yield on the investment portfolio calculated based on the yield of each investment weighted by the principal balance outstanding on such investment, expressed as a percentage. The weighted average yield does not include principal indexation.

The yield forms a component of investment cash flows used for the valuation of financial assets at fair value through profit or loss under IFRS 9.

Weighted average discount rate

A rate of return used in valuation to convert a series of future anticipated cash flows to present value under a discounted cash flow approach. This approach is used for the valuation of financial assets at fair value through profit or loss under IFRS 9.

The average rate is calculated with reference to the relative size of each investment.

Weighted average number of shares

The weighted average number of shares is calculated by multiplying the number of shares in issue during the year after buybacks of shares by the percentage of the reporting period for which that number applies for each period. The total weighted average number of shares at the year end was 427,242,221 shares.

1. Refer to relevant APM on page 143 for further information.

Glossary

Adjusted EPS Refer to APMs on pages 142 to 144	CNG Compressed natural gas stations supplying 100% renewable waste-derived biomethane	GABI GS GABI GS Limited
AGM The Annual General Meeting of the Company	Company GCP Asset Backed Income Fund Limited	GABI Housing GABI Housing Limited
AIC Association of Investment Companies	Continuation The potential continuation of the Company in its current form in accordance with its current investment policy delivered by the Investment Manager, paired with a partial capital return	GABI Housing 2 GABI Housing 2 Limited
AIC Code AIC Code of Corporate Governance	CPI Consumer price index	GABI UK and/or the Subsidiary GCP Asset Backed Income (UK) Limited
AIF Alternative Investment Fund	Discontinuation Vote An ordinary resolution at the Company's 2024 AGM that the Company cease to continue in its current form	GCP Infra GCP Infrastructure Investments Limited, a third party company advised by the Investment Manager
AIFM Alternative Investment Fund Manager	Discount Refer to APMs on pages 142 to 144	GHG Greenhouse gas
Annualised total shareholder return since IPO Refer to APMs on pages 142 to 144	Discount rate Refer to APMs on pages 142 to 144	GRESB Global Real Estate Sustainability Benchmark
APM Alternative performance measure	Dividend cover ratio Refer to APMs on pages 142 to 144	Gross assets Total assets less other receivables and prepayments
Articles The articles of association of the Company	DTRs Disclosure Guidance and Transparency Rules of the FCA	Group The Company, GABI UK, GABI GS, GABI Housing, GABI Housing 2
Average LTV Refer to APMs on pages 142 to 144	EDCI ESG Data Convergence Initiative	IAS International Accounting Standards
Benefits to end users in society The Company defines benefits to end users in society as those aligning with the UN SDGs	EGM Extraordinary General Meeting	IASB International Accounting Standards Board
Bidco The special purpose company established to hold assets for sale as part of the Co-living group restructure	EPS Earnings per share	IFRIC International Financial Reporting Interpretations Committee
Borrower Owner of a Project Company to which the Group advances loans	ESG Environmental, social and governance	IFRS Accounting Standards International Financial Reporting Standards Accounting Standards as issued by the IASB
BPA-free Bisphenol A free	FCA Financial Conduct Authority	IPO Initial public offering
BREEAM Science-based suite of validation and certification systems for sustainable built environment	FRC Financial Reporting Council	IRR Internal rate of return Refer to APMs on pages 142 to 144
Carey Olsen Carey Olsen Jersey LLP	FTE Full-time equivalent	ISAE International Standard on Assurance Engagements
CIF Law Collective Investment Funds (Jersey) Law 1988		ISO International Organisation for Standardisation

Glossary continued

ISSB International Sustainability Standards Board	Orderly Realisation A managed wind-down of the Company with an orderly realisation of its assets	SONIA Sterling Overnight Index Average
Jersey Company Law The Companies (Jersey) Law 1991, as amended	Orderly Realisation Circular The circular convening and with further information on the EGM	Strategic Review The strategic review undertaken by the Board to consider how it may best deliver value to shareholders
JFSC Jersey Financial Services Commission	Potential sale A potential sale of the entire issued share capital of the Company and/or its assets	Subsidiary and/or GABI UK GCP Asset Backed Income Fund (UK) Limited
KPI Key performance indicator	Premium Refer to APMs on pages 142 to 144	TCFD Task Force on Climate-related Financial Disclosures
Listing Rules FCA Listing Rules	PRI UN Principles for Responsible Investment	Total shareholder return Refer to APMs on pages 142 to 144
LSE London Stock Exchange	Project Company A special purpose company which owns and operates an asset	UK AIFM Regime Together, The Alternative Investment Fund Managers Regulations 2013 (as amended by The Alternative Investments Fund Managers (Amendment etc.) (EU Exit) Regulations 2019) and the Investment Funds sourcebook forming part of the FCA Handbook, as amended from time to time
LTV Loan-to-value	RBSI The Royal Bank of Scotland International Limited	UK Code UK Corporate Governance Code
MAR EU Market Abuse Regulation	RCF Revolving credit facility	UN SDGs United Nations Sustainable Development Goals
Market capitalisation Value of a company traded on the LSE, calculated as total number of shares multiplied by closing share price	RPI Retail price index	Weighted average annualised yield Refer to APMs on pages 142 to 144
Mezzanine Mezzanine loans are those which rank behind senior loans in the event that a company fails to fulfil its repayment obligations	Scheme Proposed combination of the Company with GCP Infra (refer to page 4)	Weighted average discount rate Refer to APMs on pages 142 to 144
MiFID II The UK version of MiFID II which is part of UK law by virtue of the European Union (Withdrawal) Act 2018	Secured Loan Notes Loan notes issued to the Company	
NAV Net asset value	Senior Senior loans are those that take priority over unsecured or otherwise more “junior” debt such as mezzanine loans in the event that a company fails to fulfil its repayment obligations	
NAV total return Refer to APMs on pages 142 to 144		
O&M Operations and maintenance		
Ongoing charges ratio Refer to APMs on pages 142 to 144		

Corporate information

The Company

GCP Asset Backed Income Fund Limited
ICF 5
St Helier
Jersey JE1 1ST

Directors and/or the Board

Alex Ohlsson (Chairman)
Joanna Dentskevich
Colin Huelin FCA
Marykay Fuller

Administrator, secretary and registered office of the Company

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