GCP

# Project Finance Investments Limited

Unaudited interim financial report and financial statements
For the period 7 September 2015 to 30 June 2016

## Contents



## About us

**Project Finance Investments Limited (the "Company") is a listed investment company focused primarily on asset backed loans across a range of sectors in the UK.**

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

The Company is a closed-ended investment company incorporated in Jersey. It was admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's Main Market on 23 October 2015 and had a market capitalisation of £155.9 million as at 30 June 2016.


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www.gcpuk.com

# At a glance as at 30 June 2016

| | | |
|---|---|---|
| £155.9m<br>**Market capitalisation** | £148.6m<br>**Value of investments (including cash)** | £3.1m<br>**Profit for the period** |
| 104.25p<br>**Share price (ordinary shares)** | 99.47p<br>**NAV per ordinary share** | 2.82p<br>**Dividends for the period[1]** |
| 103.00p<br>**Share price (C shares)** | 97.62p<br>**NAV per C share** | 9<br>**Number of investments** |

# Highlights for the period

- £106 million raised at IPO in October 2015
- IPO proceeds deployed quicker than anticipated resulting in first dividend being brought forward by three months and first year target dividend being increased from 4.0 pence to 5.0 pence per share
- £44 million raised through issuance of C shares in May 2016
- Diversified portfolio of nine asset backed loans with a fair value of £112.7 million
- Total loans of £13.5 million advanced post period end
- Profit for the period of £3.1 million
- Dividends of 1.32 pence per share paid for the period from IPO to 31 March 2016 and 1.50 pence per share for the quarter to 30 June 2016, declared on 20 July 2016
- Third-party valuation of the Company's investment portfolio and its Subsidiary, of £113.0 million, with cash balances of £35.6 million as at 30 June 2016
- Company NAV per ordinary share of 99.47 pence and NAV per C share of 97.62 pence as at 30 June 2016
- Ordinary shares trading at a 4.8% premium to NAV as at 30 June 2016

1. Paid or declared relating to profits in the period.

# Investment objectives

The Company invests primarily in a diversified portfolio of fixed and floating rate loans secured against physical assets and/or contracted, predictable medium- to long-term cash flows, to meet the following key objectives:

## Attractive risk adjusted returns

**To provide shareholders with returns that are attractive with regard to both the level of return achieved and the risk taken.**

The Company invested in a diversified portfolio of loans secured against identifiable, robust and dependable assets in the form of contracted cash flows and physical assets.

## Regular, growing distributions

**To provide shareholders with regular and growing dividend distributions.**

The Company increased its dividend for the period ended 30 June 2016.

## Capital appreciation

**To achieve modest appreciation in shareholder value over the long term.**

Since inception the Company's shares have traded at a premium to their NAV. The Company's ordinary and C shares were trading at 104.25 pence and 103.00 pence respectively at the period end.

## Key performance highlights

9

**Number of investments as at 30 June 2016**

8.1%

**Weighted average yield on investment portfolio**

1.32p

**Dividend for period to 31 March 2016**

1.50p

**Dividend for quarter to 30 June 2016 declared on 20 July 2016**

104.25p

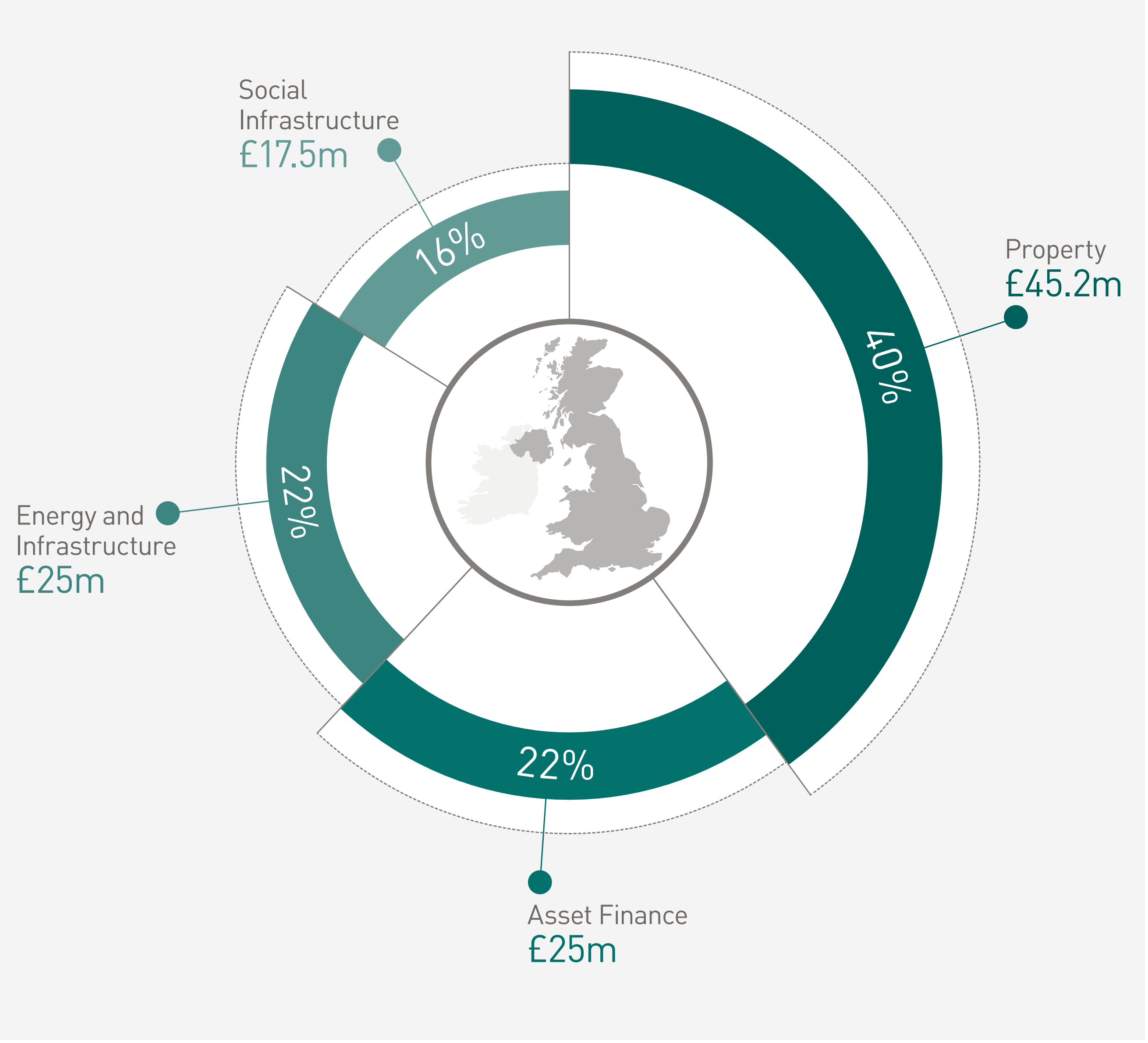
**Share price of ordinary shares as at 30 June 2016**

4.8%

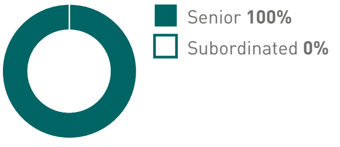
**Ordinary share premium to NAV as at 30 June 2016**

# Portfolio at a glance

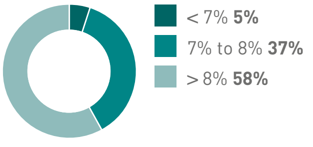
As at 30 June 2016, the Company's portfolio comprised nine investments located across the UK and which fell under the following classifications:



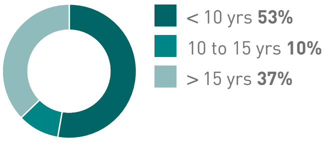

**Portfolio by security ranking**




**Portfolio by yield**




**Portfolio by expected term**



# Chairman's interim statement

**Alex Ohlsson**
Chairman

"

The Company provides investors with access to a diversified portfolio of asset backed loans in the UK.

**Introduction**

On behalf of the Board, I am pleased to report that the Company has enjoyed a successful first period from 7 September 2015 to 30 June 2016. The Company raised £106 million through its IPO in October 2015 and invested substantially all of the proceeds in a shorter period than anticipated. The efficient deployment of capital in a highly attractive portfolio of asset backed loans resulted in the first dividend being brought forward by one quarter and the target dividend for the first financial year being increased from 4.0 pence to 5.0 pence per share. This positive start to the Company's life led to a further £44 million being raised through a C share issue in May 2016. The support for both capital raises and the strong price performance of the Company's shares since IPO show considerable investor confidence in the investment strategy of the Company. We thank you for your continuing support for the Company.

At the period end, the investment portfolio consisted of loans with an outstanding principal value of £112.4 million secured against nine investments which themselves are split into investments across multiple assets, giving widespread diversification to the Company. The loans have all performed as expected to date.

**Market background**

The appeal of the Company continues to be supported by the enduring low interest rate environment, the reduction in yields resulting from central bank intervention and the associated deterioration in risk-adjusted returns across the credit markets generally. Whilst credit markets remain a core investment allocation by investors globally, the enduring market conditions have led to an increasing focus on which segments of the credit markets deliver the highest risk-adjusted returns, generating increased interest in niche and specialist lending opportunities which the Company targets.

The Company focuses on originating asset backed loans in the UK which are unquoted and, as such, are less readily accessible than mainstream credit investments. The Company is looking to capitalise on the continued retreat of banks from medium- to long-term asset backed lending. The mainstream credit institutions are vacating certain sectors and issuers for reasons other than credit quality due to major economic headwinds experienced since the global financial crisis. Banks have become subject to mis-selling scandals, higher capital requirements and tougher regulations, all of which have made certain sectors unattractive to them. This offers a considerable opportunity for specialist lenders, such as the Company, with the resource and expertise to focus on these lending opportunities.

The UK's vote to leave the European Union, and the associated uncertainty this is likely to create, is expected to reinforce the market dynamics described above. Additional reductions in interest rates and the continued withdrawal of mainstream lenders from previously serviced sectors will present increased lending opportunities for the Company.

In the context of the market dynamics described above, the Company's investment proposition remains attractive. The Company targets asset backed investments structured using the Investment Manager's approach to lending. This approach enables investors to benefit from security over real assets and the long-term, predictable and contracted cash flows associated with the utilisation of such assets, generating attractive risk-adjusted returns.

### Investment outlook

The Company primarily seeks secured loan investments across a range of sectors, with the common thread of investing in assets that provide a core service to society, such as energy, waste, social infrastructure, property or telecommunications. This provides a diversity of sector risks whilst retaining exposure to assets with long-term use allowing predictable and contracted cash flows over the loan terms.

Development in the sectors targeted by the Company continues to be a strategic focus of governments and corporates alike due to the enduring demand for the services they provide to society, in certain geographies and/or industries, this demand remains undersupplied and the outlook for investors willing to understand such sector-specific areas remains positive. The experience of the Company's Investment Manager in identifying and structuring investments in the target sectors means the Company is well placed to capture and benefit from these opportunities through gaining exposure to asset backed income streams whilst effectively managing inherent risks.

### NAV and share price performance

At the period end, the assets of the Company were £149 million. The NAV per ordinary share increased from 98 pence immediately following the Company's IPO to 99.47 pence as at 30 June 2016.

The Company's ordinary shares have traded at a premium to NAV since inception, with an average premium over the period of 5.2%. As at 30 June 2016, the share price for the ordinary shares was 104.25 pence and 103.00 pence for the C shares.

### Dividend policy

The Board has absolute discretion as to the payment of dividends. An interim dividend of 1.32 pence per share for the period from IPO to 31 March 2016 was declared on 20 April 2016 and paid on 25 May 2016. A further interim dividend of 1.50 pence per share for the period from 1 April 2016 to 30 June 2016 was declared on 20 July 2016 and paid on 22 August 2016.

The dividend target in respect of the financial year ending 31 December 2017 is 6%, with a target IRR of between 7% and 8% (on the IPO issue price) over the long term[1].

### 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 UK Code, which was updated in April 2016. A copy of the UK Code is available at www.frc.org.

The Company is classed as an externally managed AIF under AIFMD. The Investment Manager acts as the Company's AIFM and Capita Trust Company (Jersey) Limited acts as Depositary to the Company.

### Pipeline

The Investment Manager, on behalf of the Company, is currently reviewing investment opportunities totalling in excess of £70 million across these target sectors.

1. Information in relation to dividends set out above is for illustrative purposes only and is not intended to be, and should not be taken as, a profit forecast or estimate.

# Chairman's interim statement continued

### Going concern statement

Under the UK Code and applicable regulations, the Board are required to satisfy themselves that it is reasonable to assume that the Company is a going concern.

The Board has undertaken a rigorous review of the Company's ability to continue as a going concern including reviewing the cash flows and the level of cash balances as of the reporting date as well as taking forecasts of future cash flows into consideration.

After making enquiries of the Investment Manager and Administrator and having reassessed the principal risks, the Board is satisfied that there are no material uncertainties in the Company's ability to continue in operational existence for the foreseeable future. Based on its assessment and considerations, the Board has concluded that it is appropriate to adopt the going concern basis of accounting in preparing the unaudited interim financial report and financial statements.

### Proposed name change

Following consultation by the Investment Manager with investors, on 9 September 2016, the Company announced a proposed name change to GCP Asset Backed Income Fund Limited. The Board believes that the revised name more accurately reflects the Company's investment approach of making secured loans to a diversified portfolio of asset backed, income generative investments. The proposal is subject to shareholder approval at the AGM and, if approved, will take effect from 13 October 2016.

### Annual General Meeting

Notice of the Company's first AGM, to be held at 12 Castle Street, St Helier, Jersey JE2 3RT, on 12 October 2016 at 10.00am, was posted or made available to shareholders on 9 September 2016.

**Mr Alex Ohlsson**
Chairman
27 September 2016

# Principal risks and uncertainties

Principal risks faced by the Company include (but are not limited to) execution risk, portfolio risk, financial risk, operational risk and regulatory, legal and compliance risk. The full details can be found on pages 19 to 38 of the Company's prospectus dated 27 April 2016.

| Risk | How the risk is managed |
|---|---|
| **Execution** | |
| **Sufficiency of due diligence**<br>The Investment Manager's due diligence process may not reveal all facts that may be relevant in connection with an investment leading to a risk that the return received on investments will be lower than envisaged and that the principal may not be repaid in full, or at all. | The Investment Manager evaluates and monitors all risks associated with the Company's portfolio of investments it believes are material to making an investment decision. Where appropriate, it complements its analysis through the use of professional third-party advisers, including technical built asset consultants, financial and legal advisers, expert market consultants, independent valuers and insurance experts. These advisers are engaged to conduct due diligence on behalf of the Company and to provide an additional and independent review of the key aspects and risks of an investment project, providing comfort as to the level of risk mitigation, the project's ongoing performance and the competence of key parties. |
| **Availability of suitable investments and reinvestment risk**<br>There is no guarantee that the Company will be able to make suitable investments with risk and return characteristics that fit within the investment strategy of the Company, or that suitable investments that can be identified will be made in a timely manner. This is a risk when raising capital and when reinvesting principal returned to the Company under existing loan agreements. If the Company cannot invest capital in suitable assets in a timely manner, the uninvested cash balance will have a negative impact on the Company's returns. If the only available investments with an appropriate risk profile yield lower rates of return than have historically been achievable, to be fully invested the Company's overall returns may be adversely affected. | The Investment Manager is constantly in touch with the market seeking new deals and builds a specifically identified investment pipeline before raising additional finance in an attempt to ensure that capital is deployed in a timely fashion, at the Company's target return level. |
| **Portfolio** | |
| **Change in laws, regulation and/or policy**<br>The Company and its operations are subject to laws and regulations enacted by national and local governments and government policy. Any change in the laws, regulations and/or government policy affecting the Company may have a material adverse effect on the ability of the Company to successfully pursue its investment policy and meet its investment objective and on the value of the Company and the shares. | Any changes in laws, regulation and/or policy are monitored by the Board on an ongoing basis. |
| **Performance of sub-contractors**<br>The Company's investment portfolio includes investments which are dependent on the performance of sub-contractors or third-party servicers under a contractual relationship. If a sub-contractor or servicer fails to perform its role competently it may result in the borrower suffering financial loss thereby impairing its ability to service its debts, including any asset backed investment by the Company. | The competence and financial strength of contractors, as well as the terms of contractors' engagements, is a key focus of investment due diligence as well as the ability to replace key parties. The Investment Manager monitors the Company's exposure to any given sub-contractor, and ensures that the risk of underperformance is mitigated by diversification. |

# Principal risks and uncertainties continued

| Risk | How the risk is managed |
|---|---|
| **Portfolio** continued | |
| **Counterparty default**<br>A number of the Company's investments are reliant on counterparties, typically guarantors, sub-contractors counterparties to lease agreements, insurance companies and banks. In the event of a counterparty default, there may be significant difficulties for the borrower in finding an alternative or replacement counterparty on the same or better terms, and in some cases would immediately expose the borrower to financial loss, potentially impacting on the ability of the borrower to service its debts (including any investment made by the Company). | The competence and financial strength of counterparties, as well as the terms of engagements, is a key focus of investment due diligence. In addition, cash is held at a number of financial institutions to spread interest rate risk and credit risk. The Company also looks to ensure all key counterparties are easily replaceable. |
| **Property**<br>The Company's investment portfolio includes loans to projects involved in property, including development property. Such investments are indirectly exposed to the performance of the underlying real estate market in the relevant area. | The Company's property investments are at a low LTV level. In addition, the credit risk associated with each project company is mitigated as the cash flows receivable are secured over the assets of the Project Company, which in turn has security over the assets of the underlying projects. |
| **Operational or construction issues**<br>The Company's investment portfolio includes projects and assets which are exposed to development or construction and/or operational risk and may not perform as expected. Should there be any delay in completion of the construction phase in relation to any such project or assets or any "overrun" in the costs of construction, there is a risk that a borrower to whom the Company has provided finance may be unable to service its debts as expected. | The Investment Manager undertakes extensive due diligence on all projects regarding expected performance. A full package of insurance and manufacturer guarantees is put in place to protect the Company from any unforeseen events. The Investment Manager monitors the status of any project in the construction phase on an ongoing basis (monthly). The Company ensures that it has appropriate security over the assets against which it is lending. |
| **Lifecycle and maintenance costs**<br>From time to time components of a project may need to be replaced or undergo a major refurbishment. Over the life of a project, the cost of such replacements or refurbishments may be higher than projected. In such circumstances the cash flow available to service the Company's debt may be reduced to an extent where the interest and principal payments received by the Company is less than forecast. | Project lifecycle and maintenance timings and costs are typically based upon manufacturers' data and warranties and advice received from specialist consultants. Updated lifecycle cost projections are received on a regular basis and appropriate provisions made. |
| **Liquidity**<br>If the market value of any property investments for which the Company has provided finance is found to be materially lower than assumed or projected, this may adversely impact the Company's ability to recover the value of its investments in the event of a borrower default or sale process. | The Company ensures that it only lends on a low LTV basis as verified by independent experts. |
| **Insurance**<br>All the projects that the Company is exposed to are required under the loan documentation to have appropriate insurance in place. There is a risk that a project encounters issues resulting in a loss that is uninsured, either because it is not covered by the insurance that is in place or because no insurance is in place. This could mean the Company loses all or part of the value of its investment. | The Investment Manager requires confirmations and evidence from all borrowers that the insurance required by the relevant loan documentation is in place. |

| Financial | |
|---|---|
| **Valuation**<br>The value of the investments made by the Company will change from time to time according to a variety of factors, including movements and expected movements in interest rates and inflation and general market pricing of similar investments. Such changes will impact the value of the Company's investment portfolio. | The Company invests in investments with stable pre-determined, medium term, asset or cash-flow backed revenues. Where possible the Investment Manager ensures that each loan carries an element of inflation protection. |
| **Assumptions**<br>The Company makes investments which rely on detailed financial models based on certain assumptions, estimates and projections of each investment's future cash flows (which primarily consist of interest and principal receipts). There can be no assurance that the assumptions, estimates and projections used turn out to be accurate and hence that an investment's actual cash flows will equal or exceed those that are expected or that the targeted return on such investment will be achieved. Errors in these financial models, or in the methodology used in such financial models, or in the analysis of the models or their assumptions, may mean that the return on an investment in a project is less than expected. | When modelling future cash flows and structuring debt profiles, the Investment Manager uses assumptions considered to be conservative by third-party experts. The Investment Manager constantly monitors the actual performance of projects and takes action where appropriate. |
| **Other risks** | |
| **Regulatory, legal and compliance**<br>The Company may not achieve full compliance with all applicable legislation leading to reputational or financial consequences. | The Board monitors compliance information provided by the Administrator, Company Secretary, Investment Manager and legal counsel and monitors ongoing compliance developments in the Channel Islands and Europe along with regulatory developments in the UK as well as listing rules and FCA marketing rules. The Company has a comprehensive compliance monitoring programme to ensure full compliance with legislation/regulation relevant to the Company's operations. |
| **Operational**<br>Inadequate or failed internal processes, people, and systems, or from external causes (deliberate, accidental or natural). Events may be manifested as direct financial losses or result in damage to reputation causing longer term financial consequences. | The Company has no employees and has sufficient policies and procedures in place to ensure operational risk is mitigated. |
| **Cybercrime**<br>Inadequate systems, policies and procedures in place to prevent against cyber attack, which may manifest as financial losses, theft of intellectual property or damage to the Company's reputation as a consequence. | The Board monitors compliance information provided by the Administrator, Company Secretary, Investment Manager and legal counsel and monitors ongoing compliance developments in the Channel Islands and Europe. |
| **Brexit**<br>Following the UK electorate vote to leave the European Union, this decision commences a process that is likely to take a minimum of two years to complete and during this time, the UK remains a member of the European Union. There will be a resulting period of uncertainty for the UK economy and financial markets, with increased volatility expected in financial markets. | The Board does not expect Brexit to have a significant impact on the Company's investments, however, the Board continues to monitor this on a regular basis. |

# Company key facts

| | |
|---|---|
| **Company information** | Project Finance Investments Limited is a closed-ended investment company incorporated in Jersey under the Companies Law on 7 September 2015 with registered number 119412. The Company makes its investments through a wholly owned Subsidiary in the form of a loan to the Subsidiary, which on-lends the funds to the end-borrower. The Subsidiary, Project Finance Investments (UK) Limited is a private company incorporated in the UK on 23 October 2015 with registered company number 9838893. The principal legislation under which the Company operates is the Companies Law and the CIF Law. |
| **Investment Manager and AIFM** | Gravis Capital Partners LLP is the Investment Manager and AIFM to the Company. The Investment Manager was incorporated in England and Wales on 14 October 2007 under the Limited Liability Partnership Act 2000 (registered number OC332060) and is authorised and regulated by the Financial Conduct Authority (registration number 487393). |
| **Investment strategy** | Asset backed loans across a range of sectors predominantly within the UK. |
| **Market capital** | As at 30 June 2016: £155.9 million. |
| **Asset value** | As at 30 June 2016: £149 million. |
| **Annual management fee** | Under the terms of the investment management agreement, the Investment Manager is entitled to receive from the Company: (i) 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 (net of cash holdings); (ii) a £22,500 per annum fee in relation to the Investment Manager's services provided in its role as the Company's AIFM; and (iii) in addition, the Investment Manager, at its discretion, may also charge an investment fee of up to 1% of the cost of each investment made by the Company. To date, if charged, such fee has been paid by the borrower and the Investment Manager expects any such fee typically to continue to be paid by the borrower and does not currently envisage charging such fees to the Company.<br>There are no performance fees payable. |
| **ISA, PEP and SIPP status** | The Company's ordinary shares are eligible for inclusion in PEPs and ISAs (subject to applicable subscription limits) provided that they have been acquired by purchase in the market, and they are permissible assets for SIPPs. |
| **Non-mainstream pooled investment status** | The Board confirms that it conducts the Company's affairs and intends to continue to conduct its affairs so that the Company's shares will be "excluded securities" under the FCA's rules. This is on the basis that the Company, which is resident outside the EEA, would qualify for approval as an investment trust by the Commissioners for HMRC 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 promotion of non-mainstream pooled investments. |
| **AIFMD status** | The Company is classed as an externally managed AIF under AIFMD. |
| **Investment policy** | The Company's investment policy is detailed on pages 50 to 51 of the Company's prospectus dated 27 April 2016. |
| **Website** | www.gcpuk.com |

# Board of Directors

The Directors in office at the period end, all of whom are non-executive Directors, are as follows:

**Alex Ohlsson**
Chairman
Aged 46

Mr Ohlsson 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. Mr. Ohlsson was educated at Queens' College, Cambridge, where he obtained an MA (Hons) in law. Mr Ohlsson is the independent chairman of the States of Jersey's audit committee and an advisory board member of Jersey Finance, Jersey's promotional body. Mr Ohlsson acts as a non-executive director of a number of companies. Mr Ohlsson is also chairman of the LSE Main Market-listed company Foresight Solar Fund Limited. Mr Ohlsson was appointed to the Board on 14 September 2015 and will stand for election by shareholders at the AGM of the Company.

**Colin Huelin**
Non-executive Director
Aged 56

Mr Huelin graduated in mechanical engineering with a first class honours BSc degree and Diploma at Southampton University in June 1982. Mr Huelin completed his graduate management development 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. Mr Huelin 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 when the business transferred to a Jersey branch of Santander UK plc under Article 48D of the Banking Business (Jersey) Law. Mr Huelin was appointed to the Board on 7 September 2015 and will stand for election by shareholders at the AGM of the Company.

**Joanna Dentskevich**
Non-executive Director
Aged 51

Ms Dentskevich has over 25 years of risk, finance and investment banking experience gained in leading global banks worldwide, alternative investments and the offshore fiduciary industry. Ms Dentskevich currently runs her own risk management advisory company providing advice and resourcing to offshore trust, fund and investment businesses. Previously, Ms Dentskevich was a Director at Morgan Stanley heading up its Global Customer Valuation Group, Director of Risk at Deutsche Bank and Chief Risk Officer of a London based hedge fund. Ms Dentskevich has a BSc Hons in Maths & Accounting and is a Chartered Member of the Chartered Institute of Securities & Investments and a member of the Institute of Directors. Ms Dentskevich is also a non-executive director of the LSE (Specialist Fund Segment) traded company Blackstone/GSO Loan Financing Ltd.  Ms Dentskevich was appointed to the Board on 7 September 2015 and will stand for election by shareholders at the AGM of the Company.

# Investment Manager's report

The Investment Manager, Gravis Capital Partners LLP, provides discretionary investment management and risk management services to the Company which include investment identification and structuring, investment due diligence, investment monitoring, the management of and reporting on the existing loan portfolio and financial reporting support. Investment decisions are made on behalf of the Company by the Investment Manager's investment committee, with an update provided to the Board on a quarterly basis and additional updates where significant events have occurred. The Board has overall responsibility for the Company's activities including the review of investment activity and performance and control and supervision of the Investment Manager.

The Investment Manager also provides advice regarding the Company's equity and debt funding requirements. The Investment Manager is the AIFM to the Company. The basis of the remuneration of the Investment Manager is set out on pages 10 and 26.

### Investment objectives and policies

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

The Company will seek to meet its investment objective by making investments in a diversified portfolio of asset backed loans. The Company's investments are predominantly in the form of medium- to long-term fixed or floating rate loans and secured against cash flows and/or physical assets which are predominantly UK based.

Further information on the Company's investment strategy can be found on pages 50 to 51 of the Company's prospectus dated 27 April 2016.

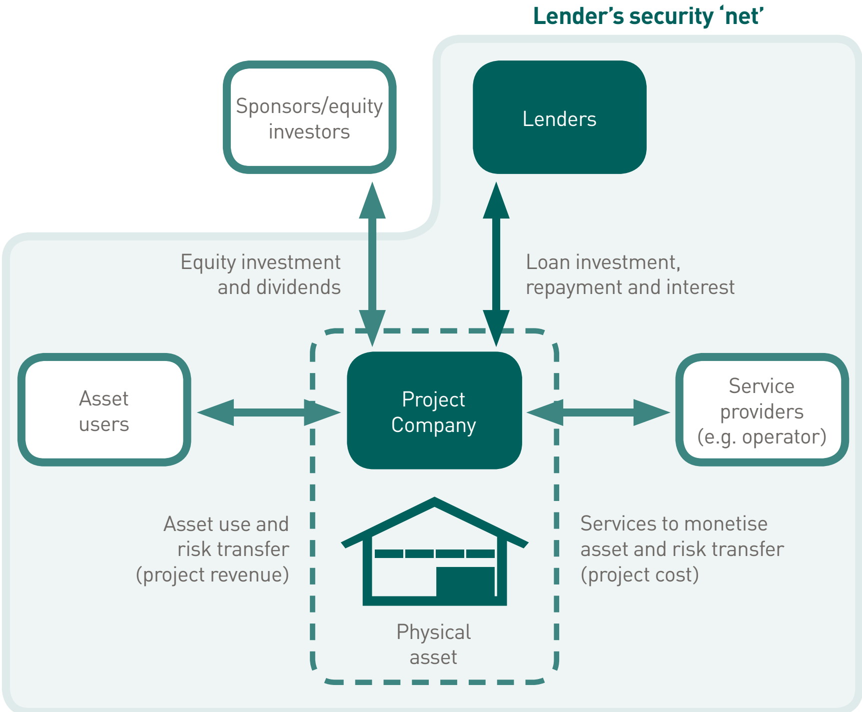
### Asset backed lending overview

Asset backed lending is an approach to structuring investment that is used to fund infrastructure, industrial or commercial projects, asset financing and equipment leases. Asset backed lending relies on: (i) the intrinsic value of physical assets; and/or (ii) the value of long-term, contracted cash flows generated by an asset; to create security against which investment can be provided.

Asset backed lending is typically provided to a Project Company which is a special purpose company, established with the specific purpose of owning and operating an asset. Financing is provided to the Project Company with recourse solely to the assets of that Project Company and distributions to service loans or other financing relies on cash generated by the asset. Lenders implement a security structure that allows them to take control of the Project Company and assume the benefits of the asset and service contracts if the Project Company has difficulties complying with financing terms.

Typically, an asset backed lending structure involves a number of counterparties, who enter into contractual relationships with the Project Company that apportion value and risk through providing services (e.g. operations and maintenance) associated with the development, ownership and/or operations of an asset. In structuring an asset backed loan, the Project Company will seek to ensure risks (and associated value) are apportioned to those counterparties best able to manage them. This ensures the effective pricing and management of risks inherent in the asset.

A typical asset backed lending structure is shown in the diagram below:



### The benefits associated with asset backed debt investments

Investment in asset backed loans generally offers relatively secure and predictable returns to their lenders, when compared with corporate lending. Further, the reduction since 2007 in the availability of mainstream debt (primarily from banks) has created the potential for more attractive pricing on debt investments particularly where such investments have been originated and structured to accommodate the borrowers' specific requirements. In particular, where borrowers may not have access to mainstream financing for reasons other than the creditworthiness of the relevant project, such as loan size, tenure, structure or an understanding of the underlying cash flows and/or asset, attractive rates are available for those willing to commit the resource, innovation and time to understanding and identifying a solution for a specific borrower's requirements.

A key benefit arising from the Investment Manager's approach to asset backed lending is transparency. A loan secured against a specific asset (within a company established specifically for that asset) is capable of analysis broadly by reference to a set of known variables (such as how an asset generates cash flow, its current value, expected future value, the competence of its service providers, and the availability of alternative service providers in the event of operator failure). By contrast, a corporate loan tends to be analysed by reference to its last reporting date, and thus such an analysis is out of date by definition; moreover, the impact of unforeseeable variables (such as the leveraged buyout of a previously investment grade credit), any off balance sheet liabilities or specific business risks may render any such analysis wholly irrelevant in a short space of time.

The need to fully understand the risks associated with a given asset, and structure arrangements with experienced service providers to effectively manage those risks, requires specialist skills and resources. For this reason, the Company's target market remains under-serviced by mainstream lenders, but is one that can generate an attractive risk-adjusted return for parties with relevant experience and access to the required resources.

The increased volatility in equity markets seen post the Brexit vote, and the uncertainty the Brexit process creates, are expected to reinforce the attractiveness of investing in assets that have the ability to generate contracted, long-term, predictable cash flows over the medium and long term.

# Investment Manager's report continued

**Investments made during the period**

| Investment | Loan | | Project |
|---|---|---|---|
| Bridging Co 1 | Amount<br>Term<br>Security<br>Status | £20.3 million<br>7 years<br>Senior<br>Operational | Bridge financing for the purchase of UK residential property. |
| Boiler Co | Amount<br>Term<br>Security<br>Status | £15.7 million<br>10 years<br>Senior<br>Operational | The financing of new domestic gas boilers in residential properties across the UK. |
| Waste Infra. Co | Amount<br>Term<br>Security<br>Status | £14.5 million<br>15 years<br>Senior<br>Construction | The construction of a materials recovery facility near Heathrow, London. |
| Bridging Co 2 | Amount<br>Term<br>Security<br>Status | £12.0 million<br>5 years<br>Senior<br>Operational | Bridge financing for the purchase of UK residential property. |
| Development Finance Co | Amount<br>Term<br>Security<br>Status | £13.0 million<br>5 years<br>Senior<br>Operational | Short-term financing for the development of UK residential property. |
| Care Homes Co | Amount<br>Term<br>Security<br>Status | £11.3 million<br>20 years<br>Senior<br>Construction | The construction of a care home providing high-end nursing and dementia care. |
| O&M Co | Amount<br>Term<br>Security<br>Status | £10.7 million<br>15 years<br>Senior<br>Operational | The financing of the operations and maintenance contracts for a portfolio of small rooftop solar installations. |
| Asset Finance Co | Amount<br>Term<br>Security<br>Status | £10.1 million<br>18 years<br>Senior<br>Operational | The financing of small distributed assets such as wind turbines and biomass boilers. |
| Social Housing Co | Amount<br>Term<br>Security<br>Status | £5.8 million<br>21 years<br>Senior<br>Operational | The acquisition and refurbishment of residential housing to accommodate high-dependency adults through an "assisted living" model. |
| | | **Investments totalling £113.4 million** | |

### Capital repayments in the period

| Investment | Loan | | Project |
|---|---|---|---|
| Boiler Co | Amount | £0.7 million | The financing of new domestic gas boilers in residential properties across the UK. |
| O&M Co | Amount | £0.2 million | The financing of the operations and maintenance contracts for a portfolio of small rooftop solar installations. |
| Asset Finance Co | Amount | £0.1 million | The financing of small distributed assets such as wind turbines and biomass boilers. |
| | | **Capital repayments totalling £1.0 million** | |

### Investments made post period end

| Investment | Loan | | Project |
|---|---|---|---|
| QMUL Co | Amount<br>Term<br>Security<br>Status | £13.5 million<br>2 years<br>Subordinated<br>Construction | Financing of construction project for a private student residential accommodation. |
| Asset Finance Co | Amount<br>Term<br>Security<br>Status | £0.8 million<br>18 years<br>Senior<br>Operational | The financing of small distributed assets such as wind turbines and biomass boilers. |
| Social Housing Co | Amount<br>Term<br>Security<br>Status | £2.4 million<br>21 years<br>Senior<br>Operational | The acquisition and refurbishment of residential housing to accommodate high-dependency adults through an 'assisted living' model. |

### Investment portfolio

The valuation of the Company's nine investments and its Subsidiary as at 30 June 2016 was £112.7 million.

The Company's investments are supported by assets geographically located across the UK and exposed to a diverse range of asset types and sectors. As at 30 June 2016 the weight-adjusted average annualised yield was 8.1% across the portfolio with a weighted average expected term of 8.2 years. Seven of the loans have been advanced to companies with operating assets. The remaining two loans have been advanced to companies with assets under construction.

### Investment valuation

The Valuation Agent carries out a fair market valuation of the Company's investments on behalf of the Board on a quarterly basis. The valuation principles used by the Valuation Agent are based on a discounted cash flow methodology. A fair value for each asset acquired by the Company is calculated by applying a discount rate (determined by the Valuation Agent) to the cash flow expected to arise from each asset.

The weighted average annualised discount rate across the portfolio as at 30 June 2016 was 7.85%. The valuation of investments is sensitive to changes in discount rates applied. A sensitivity analysis detailing the impact of a change in discount rates is given in note 16.3.

### Portfolio performance

All investments are closely monitored by the Investment Manager, against strict reporting and information requirements as set out in the investment documentation.

The portfolio is performing well and there are no material issues to report. Both assets in construction (the Waste Infra. Co and Care Homes Co) are proceeding on time and budget, with a number of important milestones in relation to the completion of ground works passed in the period.

# Investment Manager's report continued

**Portfolio performance** continued

Brexit has been seen to impact upon the valuations of a number of UK based property funds. As a result, the Investment Manager has closely reviewed those loans in the portfolio with property exposure, such as the bridge and development finance loans. The low LTVs and the type of property investment in these structures mean that the Investment Manager does not expect these loans to be impacted by Brexit-related factors, as demonstrated by the continued performance of these loans since the Brexit vote.

**Investment pipeline**

The Investment Manager maintains a pipeline of potential investments on behalf of the Company. At the end of the period, the pipeline represented c.£70 million of new opportunities. The Investment Manager continues to market and originate new opportunities through its network of developers and advisers across relevant sectors.

The Investment Manager continues to see attractive investment opportunities across a variety of sectors, including energy, social infrastructure, waste, telecommunications, and specialist property.

**Financial performance**

The Company has prepared its interim financial report and financial statements in accordance with IFRS.

In the period to 30 June 2016, the Company's portfolio generated net income on investments of £4.1 million. The profit for the period was £3.1 million, with earnings per share of 3.42 pence. The Company's ongoing charges percentage was 1.01% for the period 7 September to 30 June 2016.

The Company paid a dividend of 1.32 pence per share for the period to 31 March 2016 with a further dividend of 1.50 pence for the quarter to 30 June 2016 declared on 20 July 2016.

**Cash position**

The Company received income from investments of £3.4 million during the period, in line with expectations. The Company paid dividends of £1.4 million during the period and a further £1.6 million post period end.

The Company raised £44 million of C share capital through an issue of C shares in May 2016, in addition to the £106 million raised at IPO and has made investments totalling £113 million. Total cash reserves at the period end were £35.6 million.

It should be noted that under IFRS, equity capital raised by way of a C share raise is treated as debt for accounting purposes.

**Company exposure**

The Company's exposure to projects that have not yet completed construction with reference to total portfolio assets as at 30 June 2016 was 17%.

Elsewhere in the portfolio, the Company has exposure to the supply of commercial and industrial waste and the demand for high-end care beds (and the associated pricing of these income streams). The Investment Manager believes that conservative assumptions have been used for these factors as part of the financial model on which debt service of the Company's loans has been based, and contracting for these elements since financial close has been in line with or more favourable than the base case assumptions.

The bridging and development investments have exposure to UK residential property prices. However, the low LTV of these investments mean that there is significant headroom in the underlying asset values to absorb movements in property valuations. Further, the tenor of any particular loan is short relative to the duration of the facility, offering further protection from any market changes over the medium and long term.

**Conflicts of interest**

No conflicts of interest were declared in the period.

On 24 August 2016, the Company announced an investment of £13.5 million to finance the construction project for a private student residential accommodation development located adjacent to Queen Mary University of London.

As set out in the prospectus published on 27 April 2016, the partners of the Investment Manager indirectly own an equity interest in this development project. In accordance with the Company's investment approval process, this investment was reviewed and approved by the Board.

Where there is any overlap for a potential investment with GCP Infrastructure Investments Limited (a third-party company advised by the Investment Manager), GCP Infrastructure Investments Limited has a first right of refusal over such investment. No investments in the period overlapped with the investment policy of GCP Infrastructure Investments Limited.

**Gravis Capital Partners LLP**
27 September 2016

# Statement of Directors' responsibilities

Under the terms of the Disclosure Guidance and Transparency Rules of the UK Listing Authority, the Directors are responsible for preparing the interim financial report and financial statements in accordance with applicable regulations.

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 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 proper 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 are responsible 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.

The Directors confirm that the interim financial report and financial statements have been prepared in accordance with IFRS.

**Directors' responsibility statement**

The Directors confirm to the best of their knowledge that:

- the unaudited interim financial report and financial statements have been prepared in accordance with IFRS and give a true and fair view of the state of affairs of the Company at the end of the period and the assets, liabilities, financial position and profit or loss of the Company;
- the Chairman's interim statement and the Investment Manager's report constitute the Company's interim management report which includes a fair review of the information required by DTR 4.2.7R; and
- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

**Mr Alex Ohlsson**
Chairman

**Mr Colin Huelin**
Director
27 September 2016

# Unaudited interim statement of comprehensive income

For the period 7 September 2015 to 30 June 2016

| | Notes | Period ended 30 June 2016 £'000 |
|---|---|---|
| **Income** | | |
| Net changes in fair value on financial assets at fair value through profit or loss | | **3,561** |
| Arrangement fee income | | **490** |
| Interest income | | **109** |
| | | **4,160** |
| **Expense** | | |
| Investment management fees | 17 | **(502)** |
| Directors' remuneration | 6 | **(68)** |
| Operating expenses | 4 | **(491)** |
| | | **(1,061)** |
| **Total operating profit before finance costs** | | **3,099** |
| **Finance costs** | | |
| Amortisation of financial liabilities | 13 | **(35)** |
| **Profit for the period** | | **3,064** |
| Other comprehensive income | | **—** |
| **Total comprehensive income** | | **3,064** |
| Earnings per share (pence) | 9 | **3.418** |

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

The notes on pages 22 to 38 form part of the unaudited interim financial report and financial statements.

# Unaudited interim statement of financial position

As at 30 June 2016

| | Notes | As at 30 June 2016 £'000 |
|---|---|---|
| **Assets** | | |
| Financial assets at fair value through profit or loss | 10 | **113,036** |
| Other receivables and prepayments | 11 | **366** |
| Cash and cash equivalents | 12 | **35,583** |
| **Total assets** | | **148,985** |
| **Liabilities** | | |
| Liability in respect of C share issue | 13 | **(43,037)** |
| Other payables and accrued expenses | 14 | **(511)** |
| **Total liabilities** | | **(43,548)** |
| **Net assets** | | **105,437** |
| **Capital and reserves** | | |
| Share capital | 15 | **103,772** |
| Retained earnings | | **1,665** |
| **Total capital and reserves** | | **105,437** |

The notes on pages 22 to 38 form part of the unaudited interim financial report and financial statements.

# Unaudited interim statement of changes in equity

For the period 7 September 2015 to 30 June 2016

| | Notes | Share capital £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|
| At 7 September 2015 | | — | — | — |
| Profit for the period | | — | 3,064 | 3,064 |
| Total comprehensive income | | — | 3,064 | 3,064 |
| Equity shares issued | 15 | 106,000 | — | 106,000 |
| Share issue costs | 15 | (2,228) | — | (2,228) |
| Dividends | 8 | — | (1,399) | (1,399) |
| **At 30 June 2016** | | 103,772 | 1,665 | 105,437 |

The notes on pages 22 to 38 form part of the unaudited interim financial report and financial statements.

# Unaudited interim statement of cash flows

For the period 7 September 2015 to 30 June 2016

| | Notes | Period ended 30 June 2016 £'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Total comprehensive income | | **3,064** |
| Unrealised gain on financial assets at fair value through profit or loss | 10 | **(618)** |
| Amortisation of financial liabilities | 13 | **35** |
| Increase in other receivables and prepayments | 11 | **(366)** |
| Increase in other payables and accrued expenses | 14 | **511** |
| Investment in Subsidiary | | **(113,382)** |
| Capital receipts from Subsidiary | | **964** |
| **Net cash flow from operating activities** | | **(109,792)** |
| **Cash flows from financing activities** | | |
| Dividends paid | 8 | **(1,399)** |
| Proceeds from issue of C shares | 13 | **43,086** |
| C share issue costs | 13 | **(1,084)** |
| Proceeds from issue of ordinary shares | 15 | **106,000** |
| Ordinary share issue costs | 15 | **(2,228)** |
| **Net cash flow generated from financing activities** | | **145,375** |
| Net increase in cash and cash equivalents | | **35,583** |
| Cash and cash equivalents at beginning of the period | | **—** |
| **Cash and cash equivalents at end of the period** | 12 | **35,583** |
| **Net cash used in operating activities includes:** | | |
| Bank interest received from cash and cash equivalents | | **109** |
| Loan interest received from Subsidiary | | **2,943** |

The notes on pages 22 to 38 form part of the unaudited interim financial report and financial statements.

# Notes to the unaudited interim financial report and financial statements

For the period 7 September 2015 to 30 June 2016

## 1. General information

The Company is a registered public company incorporated and domiciled in Jersey on 7 September 2015, with registration number 119412. The Company is governed by the provisions of the Companies Law and the CIF Law.

The Company is a closed-ended investment company incorporated under the laws of Jersey. The ordinary shares and C shares of the Company are listed on the Main Market of the LSE.

The Company makes its investments through its wholly owned Subsidiary, in the form of a loan to the Subsidiary, which on-lends the funds to the end-borrower. The Subsidiary is a private limited company incorporated in the UK on 23 October 2015 (registration number 9838893). The Company, through its Subsidiary, seeks to make investments in a diversified portfolio of projects which have contracted predictable medium- to long-term cash flows and/or physical assets, such investments being asset backed lending. The asset backed debt investments are mainly in the form of medium- to long-term fixed or floating rate loans which are secured against contracted cash flows and/or physical assets which are predominantly UK based. Where possible investments are structured to benefit from partial inflation protection.

## 2. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied throughout the period presented.

### 2.1 Basis of preparation

The unaudited interim financial report and financial statements for the period from 7 September 2015 to 30 June 2016 have been prepared on a going concern basis in accordance with IFRS issued by IASB and interpretations issued by IFRIC as approved by IASC which remain in effect. The unaudited interim financial report and financial statements give a true and fair view of the Company's affairs and comply with the requirements of the Companies Law.

The unaudited interim financial report and financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss. The unaudited interim financial report and financial statements are presented in Pound Sterling and all values have been rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

In accordance with the investment entities exemption contained in IFRS 10, (Consolidated Financial Statements), the Board have determined that the Company meets the definition of an investment entity and as a result the Company is not required to prepare consolidated financial statements. The Company measures its investment in its Subsidiary at fair value and it is treated as a financial asset through profit or loss in the statement of financial position (refer to note 2.3).

The Company raised its initial capital through a placing of ordinary shares, and recently raised more capital through a placing of C shares. The C shares will convert into ordinary shares in accordance with the relevant C share prospectus. When in issue, the net assets attributable to the C share class 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. Invested C share cash is also managed as a distinct pool by the Company where expenses are either specifically invoiced to the individual share class or expenses are split proportionally to NAV (refer to note 2.3(b)).

**New standards, amendments and interpretations**

There are a number of new standards and amendments to existing standards which have been published and are mandatory for the Company's accounting periods beginning after 30 June 2016 or later periods, but the Company has decided not to adopt them early. The following are the most relevant to the Company:

- IAS 1 Presentation of Financial Statements – amendments resulting from the disclosure initiative (effective for financial periods beginning on or after 1 January 2016);
- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018);
- IFRS 7 Financial Instruments: Disclosures – amendments regarding additional hedge accounting disclosures (applied when IFRS 9 is applied); and
- IFRS 15 Revenue from Contracts with Customers was issued in May 2014 and applies to an annual reporting period beginning on or after 1 January 2018.

The Board does not expect that the adoption of new accounting standards issued but not yet effective to have a significant impact on its unaudited interim financial report and financial statements.

### 2.2 Significant accounting estimates and assumptions

The preparation of financial information in accordance with IFRS requires the Board to make estimates and assumptions that affect the reported amounts recognised in the financial information. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in the future.

#### a) Fair value of instruments not quoted in an active market

The Subsidiary's net assets consists of the investments held by the Subsidiary and loan notes issued to the Company. The fair value of the Subsidiary is not quoted in an active market and therefore the fair value is determined using a discounted cash flow methodology adjusted as appropriate for liquidity, credit and market risk factors, refer to note 16.7.

The investments held by the Company and the Subsidiary are valued by a third-party Valuation Agent on a quarterly basis using the discounted cash flow methodology.

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 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 calculation together with any unrealised movement in the fair value of the holding in the Subsidiary.

### 2.3 Significant judgements

#### a) Assessment as investment entity

The Board has concluded that the Company meets the definition of an investment entity.

Entities that meet the definition of an investment entity within IFRS 10 are required to measure their subsidiaries at fair value through profit or loss rather than consolidate them. The criteria which define an investment entity are as follows:

- an entity that obtains funds from one or more investors for 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 Company reports to its investors via quarterly investor information, and to its management, via internal management reports, on a fair value basis. All investments are reported at fair value to the extent allowed by IFRS in the Company's reports.

The Board has also concluded that the Company has met the additional characteristics of an investment entity, in that it indirectly holds a portfolio of investments by investing in an entity subsidiary that itself holds a portfolio of investments; the Company's ownership interest in the investment entity is in the form of equity. The Company has more than one investor and its investors are not related parties, other than those disclosed in note 17.

The Board has concluded that the Company meets the definition of an investment entity.

The Company has one wholly owned Subsidiary. The investment in the Subsidiary is valued at fair value through profit or loss and is not consolidated, in accordance with IFRS 10.

## 2. Significant accounting policies continued

### 2.3 Significant judgements continued

#### b) Accounting for C share class

##### i) Classification as financial liability or equity instrument

The Board has assessed the characteristics of the C share class and concluded that the C shares issued meet the definition of a liability under IAS 32 (Financial Instruments: Presentation) as the C shares are non-derivatives that include a contractual obligation under the terms of the issue to deliver a variable number of an issuer's own ordinary shares. The C shares (under IAS 32 11(b)) therefore meet the definition of a financial liability.

##### ii) Recognition and measurement of the financial liability

The Board has considered whether the C share liability should be valued in the financial statements at fair value or stated at amortised cost under IAS 39 (Financial Instruments: Recognition and Measurement).

The C shares trade at a premium to NAV at the period end which is different to the value of the cash/assets held in the C share pool. All assets/liabilities attributable to the C share pool are consolidated, if the C shares were to be fair valued, the corresponding C share liability on the statement of financial position would not equal that of the sum of the assets and liabilities creating an accounting mismatch, which would reduce net assets and create an artificial loss on fair value.

The amortised cost value of the C share pool equates to the NAV of the C shares, which the Board considers is the most appropriate way to disclose the liability within the financial statements.

#### c) Going concern

The Board has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the Board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial information has been prepared on the going concern basis.

### 2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

#### a) Financial Instruments

##### i) Classification

The Company classifies its financial assets into the categories below in accordance with IAS 39.

##### Financial assets at fair value through profit or loss

This category consists of financial instruments 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, as set out in the prospectus dated 27 April 2016.

The financial information about the financial assets of the Company is provided by the Investment Manager to the Board with the valuation model being supplied by the Valuation Agent.

##### ii) Recognition

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

##### iii) Derecognition

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

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

When the Company 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.

#### iv) Initial measurement

Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in the statement of comprehensive income.

#### v) Subsequent measurement

After initial measurement, the Company measures financial instruments which are classified as fair value through profit or loss at fair value. Subsequent changes in the fair value of those financial instruments are recorded in the statement of comprehensive income.

### b) Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques 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 values of financial instruments and further details as to how they are measured are provided in note 16.7.

### c) 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 Board consider Pound Sterling as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial information is presented in Pound Sterling, which also is the Company's functional currency.

### d) Dividends paid to shareholders

In accordance with the Company's memorandum and articles of association, in respect of the ordinary shares, the Company will distribute the income it receives to the fullest extent that is deemed appropriate by the Board. The Company intends to pay dividends on a quarterly basis with dividends declared in January, April, July and October and paid in February, May, August and November in each financial year.

### e) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position and statement of cash flows comprise cash on hand, demand deposits, short-term deposits in banks with original maturities of three months or less and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### f) Receivables

Receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost.

A provision for impairment is made when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

### g) Payables

Other payables are recognised initially at fair value and subsequently stated at amortised cost using the effective interest method.

## 2. Significant accounting policies continued

### 2.4 Summary of significant accounting policies continued

#### h) Share capital

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 on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

#### i) Liability in respect of C share issue

C shares are recognised on issue as a liability at fair value less directly attributable transaction costs. After initial recognition C shares are subsequently measured at amortised cost using the effective interest method. Amortisation is credited or charged to finance income or finance costs in the statement of comprehensive income. Transaction costs are amortised to the earliest conversion period.

The C shares will be converted into ordinary shares once at least 90% of all the assets representing the net proceeds or such other percentage as the Board and Investment Manager shall agree have been invested in accordance with the Company's investment policy or, if earlier, six months after the date of issue of the C shares. On such conversion, each holder of C shares will receive such number of ordinary shares as equals the number of C shares held by him multiplied by the NAV per C share and divided by the NAV per ordinary share, in each case as at a date shortly prior to conversion.

#### j) Interest income and expense

Interest income and interest expense other than interest received on financial assets at fair value through profit or loss are recognised on an accruals basis in the statement of comprehensive income.

#### k) Net changes in financial assets at fair value through profit or loss

This item includes changes in the fair value of the investment in the Subsidiary held at fair value through profit or loss.

#### l) Investment management fees

The Company is party to an investment management agreement with the Investment Manager, 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 objectives and policies, subject to the overall control and supervision of the Board.

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 less the value of the cash holdings of the Company pro rata to the period for which such cash holdings have been held.

The Investment Manager receives an annual fee of £22,500 in relation to its role as the Company's AIFM. The Investment Manager is also entitled to claim for expenses arising in relation to the performance of certain duties and at its discretion may also charge an investment fee of up to 1% of each investment made by the Company. If charged, the Investment Manager expects this typically to be paid by the borrower and does not currently envisage charging such fees to the Company.

The investment management fee calculated based on the above is recognised in the statement of comprehensive income on an accruals basis.

#### m) Arrangement fees

Arrangement fee income comprises the reimbursement of fees relating to the issue and setup of debt securities, as detailed in note 16.7. Based on the investment management agreement the Investment Manager is paid an investment fee out of the arrangement fees received by the Subsidiary. The remainder of the arrangement fee is then paid to the Company. The income and related expense is recognised in the statement of comprehensive income upon completion of the relevant deal, once the funds have been received from the Subsidiary.

#### n) Finance costs

Interest expense in the statement of comprehensive income comprises the C share amortisation and commitment fees which are expensed in the year they occur.

#### o) Fees and commissions

Fees and commissions in the statement of comprehensive income and the statement of financial position are recognised on an accruals basis.

#### p) Operating expenses

Operating expenses in the statement of comprehensive income are recognised on an accruals basis.

## 3. Segmental information

The Board views the operations of the Company as one operating segment, being the investment in the Subsidiary which is a registered UK company. All significant operating decisions 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 Board.

### Operating income

The following table analyses the Company's operating income per geographical location. The basis for attributing the operating income is the place of incorporation of the counterparty.

| | Period ended 30 June 2016 £'000 |
|---|---|
| Channel Islands | **109** |
| United Kingdom | **4,051** |
| **Total** | **4,160** |

The table below analyses the Company's operating income per investment category:

| | Period ended 30 June 2016 £'000 |
|---|---|
| Net changes in fair value on financial assets at fair value through profit or loss | **3,561** |
| Arrangement fee income | **490** |
| Interest income | **109** |
| **Total** | **4,160** |

The table below analyses the operating income derived from the Company's financial assets at fair value through profit or loss:

| | Period ended 30 June 2016 £'000 |
|---|---|
| Loan interest received from Subsidiary | **2,943** |
| Unrealised gain in financial assets at fair value through profit or loss | **618** |
| **Total** | **3,561** |

### 4. Operating expenses

| | Period ended 30 June 2016 £'000 |
|---|---|
| Administration and depositary fees | **138** |
| AIFMD fees | **19** |
| Audit fees | **22** |
| Brokers' fees | **34** |
| Compliance fees | **9** |
| Directors' insurance | **15** |
| FATCA fees | **3** |
| Financial advisory fees | **21** |
| Legal and professional fees | **51** |
| Other | **24** |
| Printing fees | **8** |
| Public relations fees | **16** |
| Registrar's fees | **20** |
| Regulatory fees | **9** |
| Stock exchange announcement fees | **3** |
| Stock exchange listing fee | **3** |
| Valuation Agent fees | **96** |
| **Total** | **491** |

### 5. Auditor's remuneration

| | Period ended 30 June 2016 £'000 |
|---|---|
| Audit fees[1] | **22** |
| Non-audit fees | **110** |
| **Total** | **132** |

1. The auditor provided non-audit services during the period in the form of services provided as reporting accountant during the initial public offering of the ordinary shares and the subsequent issue of C shares. A fee of £45,000 was charged in relation to the issue of the ordinary shares and a fee of £65,000 was charged in relation to the issue of the C shares, refer to notes 13 and 15.

### 6. Directors' remuneration

The Directors of the Company were remunerated as follows:

| | Period ended 30 June 2016 £'000 |
|---|---|
| Alex Ohlsson, Chairman | **25** |
| Colin Huelin | **23** |
| Joanna Dentskevich | **20** |
| **Total** | **68** |

### 7. Taxation

Profits arising in the Company for the period 7 September 2015 to 30 June 2016 are subject to tax at the standard rate of 0% in accordance with the Income Tax (Jersey) Law 1961 as amended.

### 8. Dividends

Total dividends paid for the period 7 September 2015 to 30 June 2016 totalled 2.82 pence per share as follows:

| | Pence per share | Period ended 30 June 2016 £'000 |
|---|---|---|
| For the period ended 30 June 2016 | | |
| First interim dividend paid on 25 May 2016 | 1.32 | **1,399** |
| Dividends paid during the period | | **1,399** |
| Second interim dividend paid on 22 August 2016[1] | 1.50 | **1,590** |
| **Total** | | **2,989** |

1. On 20 July, the Directors announced a dividend of 1.5 pence per ordinary share, for the period from 1 April 2016 to 30 June 2016. The dividend was paid after the period end on 22 August 2016 to holders of ordinary shares recorded on the register as at the close of business on 29 July 2016. As this dividend was declared after the period end, it is not accrued as a provision in the financial statements.

### 9. Earnings per share

Basic and diluted earnings per share are calculated by dividing profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the period. During the period there was no dilution of ordinary shares.

| | Profit £'000 | Weighted average number of ordinary shares | Pence per share |
|---|---|---|---|
| **Period ended 30 June 2016** | | | |
| Basic and diluted earnings per ordinary share | **3,064** | **89,638,586** | **3.418** |

### 10. Financial assets at fair value through profit or loss: investment in Subsidiary

The Company's financial assets consist solely of the investment in the Subsidiary, which represents amounts advanced to finance the Company's investment portfolio. The Company's investment in the Subsidiary as at 30 June 2016 comprises:

| As at 30 June 2016 | Investment at cost £'000 | Unrealised gain/(loss) £'000 | Fair value £'000 |
|---|---|---|---|
| **Debt** | | | |
| Secured Loan Notes up to £1,000,000,000 | **112,418** | **620** | **113,038** |
| **Equity** | | | |
| Ordinary share(s) – representing one ordinary share (fully paid) (£1 each) | **—** | **(2)** | **(2)** |
| **Total investment in Subsidiary** | **112,418** | **618** | **113,036** |

The above represents a 100% interest in the Subsidiary.

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, fixed at the date of issue, a base amount and a subscribed amount. The loan notes are secured and listed on the CISE.

### 11. Other receivables and prepayments

| | 30 June 2016 £'000 |
|---|---|
| Amounts receivable from Subsidiary | **359** |
| Prepayments | **7** |
| **Total** | **366** |

### 12. Cash and cash equivalents

| | 30 June 2016 £'000 |
|---|---|
| Cash and cash equivalents | **4,998** |
| Cash and cash equivalents attributable to the C share pool | **30,585** |
| **Total** | **35,583** |

## 13. Financial liabilities at amortised cost: C shares

| | 30 June 2016 £'000 |
|---|---|
| Proceeds from issue of C shares | **44,086** |
| Share issue costs | **(1,084)** |
| Net proceeds from issue of C shares | **43,002** |
| Amortisation of issue costs | **181** |
| Amortisation of C share financial liability | **(146)** |
| Amortisation of financial liabilities | **35** |
| **Total** | **43,037** |

On 24 May 2016, the Company announced the issue of 44,086,270 C shares, issued at £1 per share. C shares are no par value shares. The shares are listed on the Main Market of the LSE and dealing commenced on 31 May 2016.

Whilst the C shares are in issue, the results, assets and liabilities attributable to the C shares are accounted for as a separate pool to the results, assets and liabilities attributable to the ordinary shares. A share of fund level expenses for the period the C shares have been in issue has been allocated to the C share pool based on the net assets of each share class pool. On conversion, each holder of C shares will receive such number of ordinary shares as equals the number of C shares held multiplied by the NAV per C share and divided by the NAV per ordinary share, in each case as at a date shortly prior to conversion. The C shares carry the right to receive notice of, attend and vote at general meetings of the Company and, on a poll, to one vote for each C share held. C shares carry the right to receive all dividends resolved by the Board to be paid out of the pool of assets attributable to the C shares which shall be divided pro rata among the holders of the C shares.

Results of the C share pool for the period to 30 June 2016 are given below.

| | 30 June 2016 £'000 |
|---|---|
| Proceeds from the issue of C shares | **44,086** |
| Share issue costs | **(1,084)** |
| Net changes in fair value on financial assets at fair value through profit or loss | **25** |
| Other income | **54** |
| Fund expenses allocated to the C share pool | **(44)** |
| **Total** | **43,037** |

### 13. Financial liabilities at amortised cost: C shares continued

The C share pool is represented by the following assets and liabilities contained within the statement of financial position:

| | 30 June 2016 £'000 |
|---|---|
| Financial assets held at fair value through profit or loss | **12,418** |
| Cash and cash equivalents | **30,585** |
| Other receivables and prepayments | **69** |
| Other payables and accrued expenses | **(35)** |
| **Total** | **43,037** |

The NAV of the C shares as at 30 June 2016 is £43,037,191, representing 97.62 pence per share.

### 14. Other payables and accrued expenses

| | 30 June 2016 £'000 |
|---|---|
| Investment management fees | **235** |
| Accruals | **276** |
| **Total** | **511** |

### 15. Authorised and issued share capital

| Share capital | Number of shares | 30 June 2016 £'000 |
|---|---|---|
| **Ordinary shares issued at no par value and fully paid** | | |
| Shares on incorporation at 7 September 2015 | **2** | **—** |
| Issued in the period | **106,000,000** | **106,000** |
| Share issue costs | **—** | **(2,228)** |
| **As at 30 June 2016** | **106,000,002** | **103,772** |

The Company's share capital is represented by ordinary shares. Quantitative information about the Company's capital is provided in the statement of changes in equity.

The authorised share capital of the Company on incorporation was represented by an unlimited number of no par value ordinary shares.

On 7 September 2015, the Company was incorporated with two ordinary shares issued to the Investment Manager. These shares are still owned by the Investment Manager and are declared in the related party note 17.

On 23 October 2015, the Company issued 106,000,000 new ordinary shares following the launch of the fund.

As at 30 June 2016, the Company's issued share capital comprised 106,000,002 ordinary shares, none of which were held in treasury.

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.

## 16. Financial instruments

### 16.1 Capital management

The Company's capital is represented by share capital comprising of issued ordinary share capital as detailed in note 15 and proceeds received from C share issue.

The Company may seek to raise additional capital from time to time to the extent that the Board and the Investment Manager believe the Company will be able to make suitable investments. The Company raises capital on a highly conservative basis only when it has a clear view of a robust pipeline of highly advanced investment opportunities.

As detailed in the Company's prospectus dated 27 April 2016, the Company may borrow up to 25% of its NAV as at such time any such borrowings are drawn down. During the period the Company did not have a debt facility.

### 16.2 Financial risk management objectives

The Company has an investment policy and strategy, as summarised within its prospectus dated 27 April 2016, that sets out its overall investment strategy and its general risk management philosophy and the Company has established processes to monitor and control these in a timely and accurate manner. These guidelines are the subject of regular operational reviews undertaken by the Investment Manager to ensure that the Company's policies are adhered to as it is the Investment Manager's duty to identify and assist in the management of risk. The Investment Manager reports regularly to the Board who have ultimate responsibility for the overall risk management approach.

The Investment Manager and the Board 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 in 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, interest rate risk, credit risk and liquidity risk.

As explained in note 2.3, the Company's financial assets at fair value through profit or loss are investments in the Subsidiary. The Subsidiary is a holding vehicle used solely to hold investments and therefore, the market risk, interest rate risk, credit risk and liquidity risk is highly dependent on the performance of the Subsidiary's investments.

### 16.3 Market risk

The Subsidiary's portfolio of assets is held at fair value, and their values are monitored on a quarterly basis by the Valuation Agent. There is a risk that market movements may decrease or increase the value of the Company's assets without regard to the assets underlying performance.

The Valuation Agent considers the movements in comparable credit markets and publicly available information around each project in assessing the expected future cash flows from each investment.

The valuation principles used are based on a discounted cash flow methodology. A fair value for each asset acquired by the Company is calculated by applying a relevant market discount rate to the contractual cash flow expected to arise from each asset.

## 16. Financial instruments continued

### 16.3 Market risk continued

The Valuation Agent determines the discount rate that it believes the market would reasonably apply to each 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.

The Valuation Agent exercises its judgement in assessing the expected future cash flows from each investment. Given that the investments of the Company are generally fixed income debt instruments (in some cases with elements of inflation protection) or other investments with a similar economic effect, the focus of the Valuation Agent is on 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 Board and the subsequent NAV is reviewed by the Investment Manager and the Board on a quarterly basis.

The table below shows how changes in discount rate affect the changes in the valuation of financial assets at fair value:

| **30 June 2016**<br>**Change in discount rate** | **(0.50%)** | **0.00%** | **0.50%** |
|---|---|---|---|
| Value of financial assets at fair value (£'000) | **103,451** | **100,618** | **97,904** |
| Change in value of financial assets at fair value (£'000) | **2,833** | **—** | **(2,714)** |

### 16.4 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 and liabilities, future cash flows and borrowings.

Interest rate risk has the following effects:

#### Fair value of financial assets

Interest rates are one of the factors which the Valuation Agent takes into account when valuing financial assets.

#### Future cash flows

The Company primarily invests via its Subsidiary in a diversified portfolio of projects which have contracted, predictable medium- to long-term cash flows and/or physical assets, such investments being asset backed. The Company's investments will predominantly be in the form of medium- to long-term fixed or floating rate loans and secured against cash flows and/or physical assets which are predominantly UK-based.

Interest rate hedging may be carried out to seek 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 in the period.

Cash is held at a number of financial institutions to spread interest rate risk and credit risk. Cash awaiting investment is currently held on behalf of the Company in interest bearing bank accounts at banks carrying a minimum rating of A-2, P-2 or F-2 from Standard and Poor's, Moody's and Fitch respectively.

#### Borrowings

During the period the Company did not have a debt facility.

### 16.5 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty is not an exchange clearing house. The 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 project companies on a regular basis to ensure that credit risk is appropriately managed.

The Company is exposed to differing levels of credit risk on all its assets. Per the statement of financial position, the Company's total exposure to credit risk is £148.99 million represented by its cash, receivables and investment assets.

As noted in section 16.4, cash is held at a number of financial institutions to spread interest rate and credit risk.

The Company's investment assets are debt and equity securities in the Subsidiary and therefore, the credit risk of the Company's investment assets is highly dependent on the performance of the Subsidiary's investment portfolio, which is valued on a quarterly basis by the Valuation Agent. The Valuation Agent takes into account the credit risk associated with these investments when valuing the financial assets.

Credit risk is considered by the Valuation Agent during both the origination process and at quarterly valuation updates. Depending on the nature of the underlying projects and the extent to which due diligence was originally performed, residual credit risk is considered by reference to a number of factors including, but not limited to: relative benchmark analysis, comparable bond pricing, market analysis such as the capital asset pricing model, and fundamental credit analysis of a borrower's underlying performance by reference to any applicable loan covenants.

After an investment is made, the forecasts are regularly updated with information provided by the project companies in order to monitor ongoing financial performance. In addition, the credit risk associated with each Project Company is mitigated because the cash flows receivable are secured over the assets of the Project Company, which in turn has security over the assets of the underlying projects. As at period end, the concentration of credit risk to any Project Company did not exceed 20% of the Company's total assets.

The Board currently considers the fair value of the financial instruments at par plus accumulated interest to be reasonable. The impact of such fair value attributable to any change in credit risk will continue to be reviewed at each quarter and specifically when investments mature and their ongoing performance can be assessed. Therefore, no additional sensitivity analysis to that disclosed in note 16.3 has been provided in this respect.

### 16.6 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 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 period all investments made by the Company were funded solely by proceeds from the initial public offering and C share raise.

The financial assets held at fair value through profit or loss are the investments in the Subsidiary. The loan notes issued by the Subsidiary to the project companies are listed on the CISE. Such investments would take time to realise and there is no assurance that the valuations placed on the investments would be achieved from any such sale process.
As at 30 June 2016, the Company holds £35.6 million in cash and does not have any financial liabilities aside from the standard trade payables and accrued expenses arising from the normal course of business totalling £0.5 million, and the C share liability which will be converted to ordinary shares on the conversion date per the terms set out in the prospectus dated 27 April 2016.

The Board's assessment of the Company's ability to continue as a going concern, noted in 2.3(c), included an assessment of liquidity risk. The Board concluded that the Company will be able to generate sufficient cash resources to settle its obligations in full as they fall due.

Therefore no additional sensitivity analysis to liquidity risk has been provided in this respect.

## 16. Financial instruments continued

### 16.7 Fair value of financial assets

The Company's investment in the Subsidiary as at 30 June 2016 is designated as a financial asset at fair value through profit or loss.

#### Basis of determining fair value

The Valuation Agent carries out quarterly fair valuations of the financial assets of the Subsidiary and the Secured Loan Notes. These valuations are reviewed by the Investment Manager and the Board and the subsequent NAV is reviewed by the Investment Manager and the Board on a quarterly basis.

#### Fair value measurements

Investments measured and reported at fair value are classified and disclosed in one of the following fair value hierarchy levels depending on whether their fair value is based on:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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 table below summarises all securities held by the Company based on the fair valuation technique adopted.

| | Date of valuation | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Financial asset measured at fair value through profit or loss:** | | | | | |
| Investment in Subsidiary | **30 June 2016** | **—** | **—** | **113,036** | **113,036** |

The Board has classified the financial instruments as Level 3 due to the limited number of comparable and observable market transactions in this sector. The current input for the Level 3 at period end is the discount rate for these investments which are considered to be primarily modelled rather than market observed. The debt securities that the Subsidiary has invested in are also classified as Level 3.

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 period:

| | 30 June 2016 £'000 |
|---|---|
| **Opening balance** | **—** |
| Investment in Subsidiary | **113,382** |
| Capital repayments from Subsidiary | **(964)** |
| Unrealised gains on investments at fair value through profit or loss | **618** |
| **Closing balance** | **113,036** |

For the Company's financial instruments categorised as Level 3, changing the discount rate used to value the underlying instruments alters the fair value. As noted in note 16.3, 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 yield 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 profit before tax as shown in the table in note 16.3.

The fair value of the investment in the Subsidiary consists of both debt (the Secured Loan Notes) and equity (one ordinary share), refer to note 10.

The ordinary share that the Company holds in the Subsidiary is valued based on the NAV of the Subsidiary. As at 30 June 2016, the Subsidiary's NAV was comprised of the following balances:

| | 30 June 2016 £'000 |
|---|---|
| Financial assets at fair value through profit or loss | **112,710** |
| Cash and cash equivalents | **5,904** |
| Financial liabilities at fair value through profit or loss | **(113,038)** |
| Other payables and accrued expenses | **(5,578)** |
| **NAV of the Subsidiary** | **(2)** |

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 Valuation Agent, which is also applied to the underlying investments of the Subsidiary.

The following table from the valuation report produced by the Valuation Agent analyses the financial assets at fair value through profit or loss held by the Subsidiary listed above:

| Sector | Fair value £'000 | Valuation technique | Key unobservable inputs | Range |
|---|---|---|---|---|
| Asset Finance | **25,024** | Discounted cash flow | Discount rate | 7-9% |
| Energy and Infrastructure | **25,018** | Discounted cash flow | Discount rate | 7-10% |
| Property | **45,239** | Discounted cash flow | Discount rate | 6-9% |
| Social Infrastructure | **17,429** | Discounted cash flow | Discount rate | 6-9% |
| **Total** | **112,710** | | | |

Refer to note 16.3 for the sensitivity analysis performed in relation to fair value of the investment in the Subsidiary.

The Board reviews the quarterly valuation report provided by the Valuation Agent which includes reference to the inputs used in the valuation of investments and the appropriateness of their classification in the fair value hierarchy. In particular, the Board is satisfied that the significant inputs into the derivation of the discount rate adopted by the Valuation Agent are pursuant to the Valuation Agent engagement letter as set out within the prospectus. 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 period there were no transfers of investments between levels therefore no further disclosure is considered necessary by the Board.

### 17. 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.

#### Directors

The non-executive Directors of the Company are considered to be the key management personnel of the Company. Directors' remuneration for the period (including reimbursement of Company related expenses) totalled £68,188. As at 30 June 2016, liabilities in respect of these services amounted to £28,989. The Directors did not receive any performance based fees in the period.

As at 30 June 2016, the Directors of the Company hold directly or indirectly, and together with their family members, 80,000 ordinary shares and 30,000 C shares in the Company.

### 17. Related party disclosures continued

Investment Manager

As a result of the responsibilities delegated under the investment management agreement, the Company considers the Investment Manager to be a related party by virtue of being "key management personnel".

Partners of the Investment Manager are directors of the Subsidiary in which the Company invests.

As at 30 June 2016, the partners and key management personnel of the Investment Manager hold directly or indirectly, and together with their family members, 1,804,219 ordinary shares and 600,000 C shares in the Company.

During the period, the Company expensed £687,152 in respect of investment management and advisory fees. As at 30 June 2016, liabilities in respect of these services amounted to £234,656.

During the period, the Company expensed £18,889 in respect of AIFMD fees due to the Investment Manager. As at 30 June 2016, liabilities in respect of these services amounted to £7,439.

The Investment Manager, at its discretion, is entitled to an arrangement fee of up to 1% of the cost 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, and which may be paid by borrowers through the Subsidiary. The Subsidiary made payments of £1,000,820 to the Investment Manager in respect of such fees, all of which were borne by the borrowers. 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. In the period under review the Company received payments of £490,543 in respect of such fees, as further set out in note 3.

Subsidiary

The Subsidiary is considered to be a related party by virtue of being part of the same group. Investment into the Subsidiary during the period amounted to £113.4 million and a repayment made during the period of £1 million. At the period end, an amount of £358,402 is receivable from the Subsidiary.

### 18. Reconciliation of NAV

There is no difference between the NAV calculated in accordance with the terms of this document and the NAV reported in the financial information.

### 19. Subsequent events after the report date

On 24 August 2016 the Company announced a two-year subordinated loan of £13.5 million to finance a construction project for a private student residential accommodation development located adjacent to Queen Mary University of London. The development is expected to be completed for the 2018/19 academic year. The loan is secured by way of a subordinated charge against the property and has been funded from the Company's cash resources and predominantly from the net proceeds of its recent issue of C shares, of which over 50% have been invested at the date of publication.

On 9 September 2016, the Company announced a proposed name change to GCP Asset Backed Income Fund Limited. The proposal is subject to shareholder approval at the AGM of the Company to be held at 12 Castle Street, St. Helier, Jersey JE2 3RT on 12 October 2016 at 10:00am. If approved, the proposed name change will take effect from 13 October 2016.

On 14 September 2016, the Company provided a further drawdown in the sum of £757,789 to further finance the existing asset finance investment.

On 27 September 2016, the Company provided a further drawdown of £2,375,636 under one of the existing social infrastructure investments.

### 20. Ultimate controlling party

It is the view of the Board that there is no ultimate controlling party.

# Glossary of key terms

| | |
|---|---|
| AGM | The Annual General Meeting of the Company |
| AIF | Alternative Investment Fund |
| AIFM | Alternative Investment Fund Manager |
| AIFMD | Alternative Investment Fund Managers Directive |
| C Shares | The C Shares of Project Finance Investments Limited |
| CIF Law | Collective Investment Funds (Jersey) Law 1988 |
| CISE | The Channel Islands Securities Exchange |
| Companies Law | Companies (Jersey) Law 1991, as amended |
| The Company | Project Finance Investments Limited |
| IASB | International Accounting Standards Board |
| IASC | International Accounting Standards Committee |
| IFRIC | International Financial Reporting Interpretations Committee |
| IFRS | International Financial Reporting Standards |
| ISA | Individual Savings Account |
| FCA | Financial Conduct Authority |
| LSE | London Stock Exchange |
| LTV | Loan-to-value |
| NAV | Net asset value |
| Ordinary shares | The ordinary share capital of Project Finance Investments Limited |
| PEP | Personal Equity Plan |
| Project Company | A special purpose company which owns and operates an asset |
| Secured Loan Notes | Loan notes issued to the Company |
| SIPP | Self-Invested Personal Pension |
| The Subsidiary | Project Finance Investments (UK) Limited |
| UK Code | The UK Corporate Governance Code |

# Company information

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Colin Huelin
Joanna Dentskevich

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