REAL ESTATE CREDIT INVESTMENTS LIMITED

formerly Real Estate Credit Investments PCC Limited

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

Contents

Financial Highlights

RECI Key Financial Data	31 Mar 2017	31 Mar 2016
Gross Assets	£189.3m	£163.8m
Investment Portfolio	£159.0m	£152.8m
Cash (excluding cash collateral)	£24.9m*	£5.3m
Operating Income	£15.3m	£17.7m
Number of Loans	19	17
Fair Value of Loans	£109.3m	£115.3m
Number of Bonds	24	34
Fair Value of Bonds	£49.8m	£40.0m

Key Performance Indicators

Net Profit	£9.1m	£8.5m
Weighted average life of Loan portfolio	1.5 years	1.8 years
Weighted average LTV of Loan Portfolio	68.7%	71.5%
Weighted average yield of Loan Portfolio	11.9%	12.4%
Net Asset Value per Ordinary Share	£1.632	£1.632
Share price	£1.625	£1.620
Profit per Ordinary Share	£0.124	£0.117
Dividends per Ordinary Share declared for the period	£0.111	£0.116**
NAV total return	6.8%	7.7%

Further Information

A results presentation will be available on the Company’s website: www.recreditinvest.com/investmentmanager

*This amount includes the Initial Placing cash proceeds.
**Includes a Special Dividend of £0.008

About the Company

Real Estate Credit Investments Limited ("RECI" or the "Company") is a non-cellular company incorporated in Guernsey, having converted from a protected cell company called Real Estate Credit Investments PCC Limited on 25 October 2016. The Company is regulated as an authorised, closed-ended investment scheme by the Guernsey Financial Services Commission.

The Company invests in real estate debt secured by commercial or residential properties in Western Europe, focusing primarily in the United Kingdom and Germany. The Company has adopted a long term strategic approach to investing and focuses on identifying value in real estate debt. In making these investments the Company uses the expertise and knowledge of its Alternative Investment Fund Manager ("AIFM"), Cheyne Capital Management (UK) LLP ("Cheyne" or the "Investment Manager").

The Ordinary Shares (ticker RECI) reflect the performance of the Company's real estate debt strategy. The Ordinary Shares are currently listed on the premium segment of the Official List of the UK Listing Authority and trade on the Main Market of the London Stock Exchange plc. Ordinary Shares offer investors a levered exposure to a portfolio of real estate debt investments and aim to pay a quarterly dividend. Such leverage is currently provided by the Preference Shares (ticker RECP) which confer the right to a preferential cumulative preference dividend of 8 per cent per annum payable quarterly on each Payment Date. The Preference Shares are currently listed on the standard segment of the Official List of the UK Listing Authority and trade on the Main Market of the London Stock Exchange plc. The Preference Shares are due to be redeemed in September 2017. The listing for the Preference Shares will end, and the Repayment Amount funded, on 18 September 2017.

Website and Share Price Information
The Company has a dedicated website, which may be found at www.recreditinvest.com which contains comprehensive information, including regulatory announcements, share price information, financial reports, investment objectives and strategy, investor contacts and information on the Board.

Investment Objective and Investment Policy

The investment objective of the Company is to provide Ordinary Shareholders with exposure to a diversified portfolio of Real Estate Credit Investments and to provide Preference Shareholders with stable returns in the form of quarterly dividends.

Investment Policy

To achieve the investment objective, the Company invests and will continue to invest in real estate debt secured by commercial or residential properties in Western Europe, focussing primarily in the United Kingdom and Germany ("Real Estate Credit Investments"). The Real Estate Credit Investments may take different forms but are likely to be:

(i) secured real estate loans, debentures or any other forms of debt instruments (together "Secured Debt"). Secured real estate loans are typically secured by mortgages over the property or charges over the shares of the property-owning vehicle. Individual Secured Debt investments will have a weighted average life profile ranging from six months to 15 years. Investments in Secured Debt will also be directly or indirectly secured by one or more commercial or residential properties, and shall not exceed a loan to value ("LTV") of 85 per cent at the time of investment;

(ii) listed debt securities and securitised tranches of real estate related debt securities, for example, residential mortgage-backed securities and commercial mortgage-backed securities (together "MBS"), for the avoidance of doubt, this does not include equity residual positions in MBS;

(iii) other direct or indirect opportunities, including equity participations in real estate, save that no more than 20 per cent of the Total Assets will be invested in positions with an LTV in excess of 85 per cent or in equity positions that are uncollateralised.

On certain transactions the Company may be granted equity positions as part of its loan terms. These positions will come as part of the Company's overall return on its investments and may or may not provide extra profit to the Company depending on market conditions and the performance of the loan. These positions are deemed collateralised equity positions. All other equity positions that the Company may invest in are deemed uncollateralised equity positions.

Alternative Investment Fund Managers Directive

Additional Information on the Company, including information on the Alternative Investment Fund Managers Directive ("AIFMD"), can be found either in this Annual Report or on the website at www.recreditinvest.com.

Directors and Advisers

Directors
Bob Cowdell (Chairman)
John Hallam
Graham Harrison
Sarah Evans (appointed 1 July 2016)
Mark Burton (resigned 1 July 2016)
Christopher Spencer (retired 16 September 2016)

Administrator and Secretary of the Company
State Street (Guernsey) Limited
PO Box 543
First Floor, Dorey Court
Admiral Park
St. Peter Port
Guernsey GY1 6HJ

Corporate Broker
Liberum Capital Limited
Ropemaker Place, Level 12
25 Ropemaker Street
London EC2Y 9LY

Registrar
Capita Registrars (Guernsey) Limited
Mount Crevelt House
Bulwer Avenue
St. Sampson
Guernsey GY2 4LH

Depositary
State Street Custody Services (Guernsey) Limited
First Floor, Dorey Court
Admiral Park
St. Peter Port
Guernsey GY1 6HJ

Registered Office
First Floor, Dorey Court
Admiral Park
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Guernsey GY1 6HJ

Alternative Investment Fund Manager
Cheyne Capital Management (UK) LLP
Stornoway House
13 Cleveland Row
London SW1A 1DH

Independent Auditor
Deloitte LLP
Regency Court
Glategny Esplanade
St. Peter Port
Guernsey GY1 3HW

UK Transfer Agent
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Delegated Administrator
State Street Fund Services (Ireland) Limited
78 Sir John Rogerson's Quay
Dublin 2
Ireland

Chairman's Statement

Financial performance:
Your Company has recorded another year of positive performance for the year ended 31 March 2017 and I am pleased to report an increase in the fourth interim dividend.

Despite the various economic, financial markets and geopolitical challenges and uncertainties, particularly the Brexit referendum last June, RECI has maintained a steady net asset value ("NAV") for the last three years, while continuing to provide investors with an attractive dividend yield.

Reflecting this, the Company's NAV at 31 March 2017 was maintained at £1.632 per Ordinary Share (£1.632 per Ordinary Share as at 31 March 2016). When combined with the increased total dividends declared in respect of the year of 11.1p per share, this provides a total return to our Ordinary Shareholders of 6.8% for the year.

RECI reported total net profit for the year ended 31 March 2017 of £9.1 million, up from £8.5 million in the year ended 31 March 2016.

An increased fourth interim dividend of 3.0p per Ordinary Share (up 11% from 2.7p last year) was declared on 15th June 2016 for the quarter ended 31 March 2017. Total dividends declared in respect of the financial year ended 31 March 2017 were 11.1p per share, returning £8.5 million to our Ordinary Shareholders.

A dividend of 2.0p per Preference Share has been declared for the quarter ended 31 March 2017, bringing total dividends declared in respect of the financial year up to the full entitlement of 8.0p per Preference Share, returning £3.4 million to our Preference Shareholders.

Conversion and Name Change
As mentioned in the Interim Report, the Company announced on 25 October 2016 that, following receipt of shareholder approval, it had converted from a protected cell company, to a non-cellular company, and changed its name to "Real Estate Credit Investments Limited".

Placing Programme, Initial Capital Raise and amendments to Articles of Association
On 23 February 2017, the Company announced it was seeking Shareholder approval of a Placing Programme to raise up to £100 million by the issue of up to 65 million new Ordinary Shares in the period to 22 February 2018, which was duly approved at the Company's Extraordinary General Meeting held on 22nd March 2017 (the "EGM"). At the EGM, Shareholders also approved amendments to the Company's Articles of Association, Investment Policy and borrowing powers.

On 24 March 2017, RECI completed the successful closing of the Initial Placing under its Placing Programme, which raised £25.3 million through a placing of 15.5 million new Ordinary Shares. The proceeds have already been invested in a combination of UK real estate loans and new bond issues, further demonstrating Cheyne's effective origination capabilities.

Dividend Policy
It is the intention of the Company to continue to pay a regular, stable dividend with the prospect of additional or incremental payments as investment returns permit.

As I highlighted above, having reviewed the pipeline of investment opportunities, returns and projected cash flow and mindful of the redemption in September 2017 of all the Preference Shares, with their 8% per annum coupon, your Board is pleased to increase the fourth interim dividend by 11% to 3p (2.7p for the quarter ended 31 March 2016).

Board Update
The Company's succession planning continued during the financial year. On 1 July 2016, Mark Burton stood down and I was pleased to welcome Sarah Evans to the Board. Chris Spencer retired from the Board upon conclusion of the Company's AGM on 16 September 2016, with John Hallam succeeding him as Chairman of the Audit Committee from that date.

Corporate Governance
Your Board continues to place importance on maintaining a high quality of corporate governance, details of which, including the establishment of a Management Engagement Committee, are set out in the Corporate Governance Report. Shareholders are given the opportunity to vote upon the continuation of the Company every four years and a resolution for RECI's continuation will be proposed at the AGM in September 2017.

Chairman's Statement (continued)

Investment Management
The last financial year was the first full year with Ravi Stickney as our lead manager. He heads the Cheyne Property Desk of 17 experienced credit and property professionals who manage circa $2 billion of real estate related assets. RECI continues to benefit from being able to co-invest, alongside other Cheyne clients, in a pipeline of attractive loan and bond opportunities. Following the subdued markets prior to and post the Brexit referendum, it is encouraging to see the new investments made by RECI in the second half of the last financial year and continuing into the current year.

Comment and Outlook
The last financial year saw your Company move forward with the simplification of its corporate structure and change of name; the launch of the Placing Programme and the successful Initial Placing. The Board wishes to continue to build upon this momentum and, in September 2017, the Company will be redeeming all of the remaining issued Preference Shares leaving RECI with a single class of Ordinary Share capital. This will allow the Investment Manager greater scope to utilise the new leverage allowance of 40% of NAV; to introduce more cost effective sources of borrowing; and thereby seek to increase the risk adjusted returns of the Company's Ordinary Shareholders.

The Board believes RECI will be an ongoing beneficiary of the real estate lending and market opportunities identified by our Investment Manager. We are mindful, however, of the inconclusive UK election result and the ongoing uncertainty as to the outcome of the impending Brexit negotiations and their potential economic impact. Nevertheless, the Company has benefitted from the opportunities provided by previous periods of market dislocation; and Cheyne's disciplined approach to investment selection and strong pipeline of potential transactions provides confidence that RECI can continue to deliver an attractive and sustainable yield for our shareholders.

Bob Cowdell
Chairman

15 June 2017

Strategic Report

The Strategic Report describes the business of the Company and details the principal risks and uncertainties associated with its activities.

Objective, Investment Policy and Business Model
The Objective and Investment Policy are set out on page 4, and further to this the Company's business model is detailed in the Investment Manager's Report. There is also an 'About the Company' section on page 4 explaining in more detail the corporate structure and listings of the Shares.

RECI is externally managed by Cheyne, a UK investment manager authorised and regulated by the Financial Conduct Authority ("FCA"). Cheyne is a limited liability partnership registered in England and Wales on 8 August 2006 and is authorised and regulated in the conduct of investment business in the United Kingdom by the FCA. Cheyne is also the AIFM of the Company.

Current and Future Development
A review of the year and outlook is contained in the Investment Manager's Report and also within the Chairman's Statement.

Performance
A review of performance is contained in the Financial Highlights/Key Performance Indicators section and the Investment Manager's Report.

A number of performance measures are considered by the Board and the Investment Manager in assessing the Company's success in achieving its objectives, and considering its progress and performance. The Key Performance Indicators ("KPIs") are shown on page 3.

Duties and Responsibilities
The Board has overall responsibility for maximising the Company's success by directing and supervising the affairs of the business and meeting the appropriate interests of shareholders and relevant stakeholders, while enhancing the value of the Company and also ensuring the protection of investors. A summary of the Board's responsibilities is as follows:

- statutory obligations and public disclosure;
- strategic matters and financial reporting;
- risk assessment and management including reporting, compliance, governance, monitoring and control; and
- other matters having a material effect on the Company.

The Board is responsible to the shareholders for the overall management and strategy of the Company, but has delegated day to day operation to the Investment Manager and State Street (Guernsey) Limited (the "Administrator" or "Company Secretary"), while reserving the powers of decision making relating to the determination of investment policy, corporate structure and the management of the share capital of the Company.

The Board is further responsible for financial reporting and controls and determining the dividend and accounting policies. While the Investment Manager manages the portfolio of the Company, the Board retains responsibility for overseeing the Investment Manager and ensuring the establishment and ongoing operation of a sound system of internal control. Any material contracts and those not in the normal course of business, are also dealt with by the Board.

The Board is responsible for its own structure, size and effectiveness, with the delegation of some duties to Committees made up of its members. The Board retains the control of the Committees and requires that they report to the full Board on a regular basis providing their findings and recommendations. The Nomination Committee reviews Director's remuneration and, as appropriate, makes recommendations to the Board; the Board sets the levels of remuneration, which are clearly communicated to Shareholders.

The Board performs a formal and rigorous review of its own performance and continually scrutinises its independence and transparency.

The Board's responsibilities for the Annual Report are set out in the Directors' Responsibility Statement. The Board is also responsible for issuing appropriate half-yearly financial reports and other price-sensitive public reports.

Strategic Report (continued)

Long Term Viability

In accordance with provision C.2.2 of the revision of the Code of Corporate Governance, the Directors have assessed the prospect of the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Board has chosen a period of three years for the following reasons:

1) The Company’s planning horizon covers a three year period;
2) This period sees the Company well past the continuation vote and Preference Share redemption, both of which will occur in Q3 2017; and
3) The weighted average life of the loan portfolio is 1.5 years and the majority of assets are expected to be realised in that period, or shortly thereafter.

The three year review considers the Company's cash flows arising from the loan and bond portfolios, including interest received and proceeds from realisations, obligations of the Company and dividend cover. Further considerations are the inherent sensitivities within the loan and bond portfolios, and their impact on the cash flows. For the purposes of this review, the Board has assumed the continuation vote to be held in Q3 2017 will be passed and has taken account of the full and final settlement of the Preference Share Liability, which will be funded by a combination of i) available cash on the balance sheet, ii) loan and bond repayments, iii) short term financing taken against the liquid bond portfolio and iv) sale of bonds.

The Board has identified a number of Principal Risks, which are detailed fully below. The Board has taken these into account when considering the long term viability of the Company.

The Board has performed the review over the three year period stress testing the performance against a number of adverse scenarios, such as the fair value write down of the investments, or reduced cash flows from the investment portfolio. The fair value stress test was considered relevant to factor in any potential events affecting the underlying assets or credit concerns about the borrowers which potentially could impact on the fair value. The reduced cash flows stress test was considered relevant in the event of potential defaults arising on the loan portfolio and the inability to recover the interest or principal back in full. Even taking these stress scenarios into account and bearing in mind the liquidity of the bond portfolio the Company is expected to be able to meet its liabilities over the three year period.

Risk Management

It is the role of the Board of Directors to review and manage all risks associated with the Company, mitigating these either directly or through the delegation of certain responsibilities to the Audit Committee and Investment Manager.

The Board considers that the following risks are the Principal Risks and uncertainties faced and has identified the mitigating actions in place to manage them.

Long-term Strategic Risk

The Company is subject to the risk that its long-term strategy and its level of performance fail to meet the expectations of its shareholders. The shares may trade at a discount to Net Asset Value (“NAV”) per share and shareholders may be unable to realise their investments through the secondary market at NAV per share. The Board monitors the level of premium or discount of share price to NAV per share.

The Board monitors investment strategy and performance on an ongoing basis and regularly reviews the Objective and Investment Policy in light of prevailing investor sentiment to ensure the Company remains attractive to its shareholders. While the Board may seek to reduce any discount to NAV per share through share buybacks, there can be no guarantee that they will do so and or that such a tactic will be successful.

The Company has the authority to make market purchases of fully paid shares of up to 14.99 per cent. of each class of shares in issue, and renewal of this authority will be sought from shareholders at the annual general meeting of the Company to be held in 2017 and at each subsequent annual general meeting, or earlier at an extraordinary general meeting if the Directors consider it appropriate.

Strategic Report (continued)

Target Portfolio Returns and Dividend
The Company's targeted returns are based on estimates and assumptions that are inherently subject to significant business and economic uncertainties and contingencies, and the actual rate of return may be materially lower than the targeted returns. In addition, the pace of investment may be slower than expected, or principal may be repaid earlier than anticipated, causing the return on affected investments to be less than expected. In addition if repayments are not promptly re-invested this may result in cash drag which may lower portfolio returns.

As a result the level of dividends and other distributions to be paid by the Company may fluctuate and there is no guarantee that any such distributions will be paid.

The Investment Manager regularly provides the Board with reports on pipeline opportunities, which include analysis of the expected returns available. The Directors also regularly receive information on the performance of the existing loans which includes analysis of the likelihood of any early repayments which may impact returns.

Valuation
The valuation and performance of the Company's investments in its portfolio of Real Estate Credit Investments are the key value drivers for the Company's NAV and interest income. Judgements over fair value estimates could significantly affect these key performance indicators.

The Company categorises its financial assets and liabilities in accordance with IFRS13 and establishes fair value utilising the methodology set out in Note 14(d).

Market Risk
Market risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk comprises of interest rate risk, currency risk, liquidity risk and other price risk.

The Company's strategy on the management of market risk is driven by the Company's investment objective detailed in Note 1 of the financial statements.

The Company's market risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures detailed in the latest prospectus and summarised in these financial statements.

Interest Rate Risk
Interest rate risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company invests in both direct real estate loans and floating rate real estate debt securities, which include MBS.

Real estate loans can have fixed interest income and are therefore potentially exposed to the wider effects of changes in interest rates.

For bonds, the interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cash flows. These floating rate debt investments are exposed to interest rate risk through changes in interest rates potentially having an effect on prepayments and defaults of the underlying loans of the securitisations.

While retaining the ability to do so the Company does not currently enter into hedging arrangements in respect of interest rate fluctuations.

Currency Risk
Currency Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk to the extent that foreign exchange rates fluctuate in relation to financial instruments that are denominated in currencies other than GBP.

The Company manages its foreign exchange risk on a case by case basis and also, where the Investment Manager considers it appropriate, on a portfolio basis. The Company may bear a level of currency risk that could otherwise be hedged where it considers that bearing such risks is appropriate. The Company manages its foreign exchange exposure through a mixture of currency options and forward foreign currency exchange contracts.

Strategic Report (continued)

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities on a timely basis. The Company's liquidity risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures detailed in the notes to the financial statements. Where needed, the Investment Manager will seek to liquidate positions to increase cash.

The market for MBS and real estate loans is relatively illiquid. In addition, investments that the Company purchases in privately negotiated (also called "over the counter" or "OTC") transactions may not be registered under relevant securities laws or otherwise may not be freely tradable, resulting in restrictions on their transfer, sale, pledge or other disposition except in a transaction that is exempt from the registration requirements of, or is otherwise in accordance with, those laws. As a result of this illiquidity, the Company's ability to vary its portfolio in a timely fashion and to receive a fair price in response to changes in economic and other conditions may be limited.

Furthermore, where the Company acquires investments for which there is not a readily available market, the Company's ability to deal in any such investment or obtain reliable information about the value of such investment or risks to which such investment is exposed may be limited.

For further information on risks please refer to Note 14.

Investment Manager's Report

State of the Market
RECI's core investment area is in real estate debt with a focus on Western Europe and in particular the UK and Germany. In addition to the continued retrenchment of traditional lenders from the real estate sphere in these countries (due to regulatory and balance sheet constraints), the UK referendum result ("Brexit") has had a significant impact on both the opportunity set available to RECI as well as the risk profile of its credit book.

The immediate aftermath of Brexit saw a marked deterioration in asset values for the UK (in particular for the London office market, the UK residential markets and UK retail markets). Whilst values remain suppressed, we believe that valuations today already reflect buyer's expectations of a worst-case Brexit scenario.

The opportunity today for RECI
The retrenchment of traditional (and emerging lenders) in particularly the UK real estate lending sphere has, in our view, accelerated during the last year. This is due to a combination of factors, namely the ongoing and increasing regulatory pressures being put on banks and also the impact of Brexit. The latter factor has seen the decrease in foreign lending institutions as well as the reduction in the appetite of new entrants and foreign funds for the UK market.

The reduction in risk appetite from lenders, however, is not necessarily met with the volume of new deals that need financing and the requirement from borrowers for timely and tailored financing solutions. If anything, we note a growth in the number of opportunistic buyers looking at UK property at this attractive entry point.

This has left established lenders, such as RECI, with a unique opportunity to significantly increase its presence in the market, and to do this without compromising on risk or returns. Indeed, in the current climate, RECI has the opportunity to seek a lower risk profile for its deals, whilst still maintaining (if not improving) on the economic return and the structural terms of its deals.

We believe that the opportunity set available to RECI today, for the UK market, may be as compelling as that present in the 2008 and 2009 period, in the immediate aftermath of the global financial crisis.

In the current post-Brexit market, we believe that there are 2 clear areas offering the best risk adjusted returns;

- Senior lending to the UK market for value-add / transformational assets; This lending market has seen the most severe retrenchment of competition from traditional and also alternative lenders. Risk profiles have dropped (lower LTV and stronger lender protection), whilst returns have improved.
- Listed securities on large assets or portfolio's of core / core+ income assets; RECI and Cheyne Capital are significant investors in the CMBS and listed securities market for real estate debt. The opportunity exists today (especially for the UK market) to originate and also invest in these securities which now offer a very compelling relative value when compared to global fixed income markets.

The following deals, which were very recently closed by RECI, demonstrate the superior deal profiles available to RECI today :

1) Senior loan on a prime London residential redevelopment project

   This senior loan deal is for a commitment of £20 million and closed in April 2017. The LTV point is 40%, with substantial equity and mezzanine debt ranking behind RECI. The IRR for RECI is 8%. The compelling returns for this risk profile demonstrates the significant shift in pricing for senior debt on value-add assets in the UK.

2) New issue listed bond on a core income UK student housing portfolio

   This 2nd ranking mezzanine listed bond was a collaborative deal by a large bank and Cheyne Capital, thus ensuring that RECI benefited from undiluted economics and stronger structural credit protection. The LTV on this deal, at inception, was 70%. The sponsor is a large well known institutional fund. The unlevered returns on this bond are 7.75%.

In addition to the number of deals closed recently, RECI benefits from the deal origination capabilities of Cheyne Capital. The pipeline today is compelling in terms of number of deals as well as the risk profile it contains. The majority of the current pipeline is in the senior debt and core income CMBS space.

In the current environment, RECI does not believe it needs to focus on the higher leverage strategies, such as high LTV whole loans or preferred equity, to deliver its return targets and dividend yields to investors.

Investment Manager's Report (continued)

The challenges for RECI

We are cognisant of the fact that severe value declines for UK assets pose a challenge to some of the borrowers to which RECI has advanced credit. In the 11 months since Brexit, we have worked closely with our borrowers to shepherd them towards a timely exit, with good success. The largest mitigants that RECI has against such severe market moves are:

1) Being in the debt position, RECI has a natural valuation buffer against market movements.
2) The deals that RECI enters into (be it in senior or mezzanine debt) usually provide RECI with the control mechanism to direct an exit strategy in the event of a default. This is a result of Cheyne originating its own deals (and not buying in syndicated debt), which means that it can establish the necessary control mechanisms to protect its position in an adverse event.

Responding to a very compelling investment climate; RECI's timely capital raise

In recognition of the significantly more compelling opportunity set and the robust pipeline, on 24 March 2017, RECI completed the successful closing of the Initial Placing under its new Placing Programme which raised £25.3 million through a placing of 15.5 million new Ordinary Shares. RECI has invested the gross proceeds of the Initial Placing in debt secured by commercial or residential properties in the United Kingdom and Western Europe in the form of both secured real estate loans and CMBS. Since the Initial Placing, RECI has already committed all of the capital raised to deals.

Opportunities from a changing capital structure

RECI has £41.9 million of Preference Shares outstanding today. These pay a coupon of 8% p.a. and are repayable in September 2017. The new leverage policy approved in March 2017 allows for leverage up to 40% of NAV (being c28.6% of Gross Asset Value ("GAV")). The repayment of these Preference Shares, along with the new leverage policy, should unlock for RECI an opportunity to improve the efficiency, flexibility and economic terms of its financing.

In summary

We believe that this is a very opportune time for investments into real estate debt, in particular for the UK senior lending market. RECI, via its relationship with the long established real estate credit platform of Cheyne Capital, is ideally placed to capture this opportunity. In addition, RECI should benefit from an improved capital structure and access to a more optimised capital structure after September 2017.

The combination of these, in our view, should help RECI return a superior dividend profile, without compromising on risk, to its investors

Top 10 Exposures[1] as at 31 March 2017

Market Value	£103.3 million
WA Original LTV[2]	64.8%
WA Cheyne Current LTV[4]	73.1%
WA Effective Yield[3]	10.5%

Type	Class	Collateral Description
Commercial	Bond	Bond secured against a prominent office building located in the City of London
Commercial	Loan	Mezz loan made on a 40 storey residential tower, 10 storey pre-let office and a retail building in Shoreditch, London
Commercial	Loan	Priority ranking shareholder loan against a portfolio of UK logistics and industrial properties
Residential	Loan	Mezz loan secured by residential land & homes under development in South East UK
Commercial	Bond	Bond secured against a fully let UK student housing portfolio
Commercial	Loan	Mezz loan secured on a fully let retail park in Essex
Commercial	Loan	Whole loan secured against a 125 room hotel in York
Residential	Loan	Mezz loan to assist in the acquisition of major German residential development company
Commercial	Loan	Mezz loan secured against two mixed use estates in Central London
Commercial	Loan	Mezz loan secured against a branded London hotel development in Shoreditch

[1]Based on fair value of bonds and loans.

[2]The weighted average original loan to value has been calculated by reference to the original acquisition value of the relevant collateral as disclosed at the time of issue of the relevant bond or loan. The original LTV is weighted by the market value of the bonds and loans. The weighted average Cheyne current LTV has been calculated by the Investment Manager by reference to the current value ascribed to the collateral by the Investment Manager. In determining these values, the Investment Manager has undertaken its own internal valuation of the underlying collateral. Such valuations have not been subject to independent verification or review. WA LTV figures are calculated with original notional using pool factor and FX rate as at 31 March 2016.

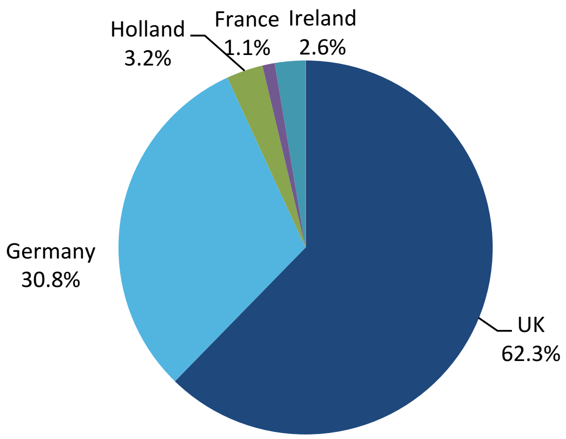
[3]WA effective yield is based on the effective yield as at most recent purchase and is based on the Investment Manager's pricing assumptions and actual returns may differ materially from those expressed or implied herein. WA effective yield figures are calculated with original notional using pool factor and FX rate as at 31 March 2016.

[4]This is the weighted average loan to value based on Cheyne calculations.

Investment Manager's Report (continued)

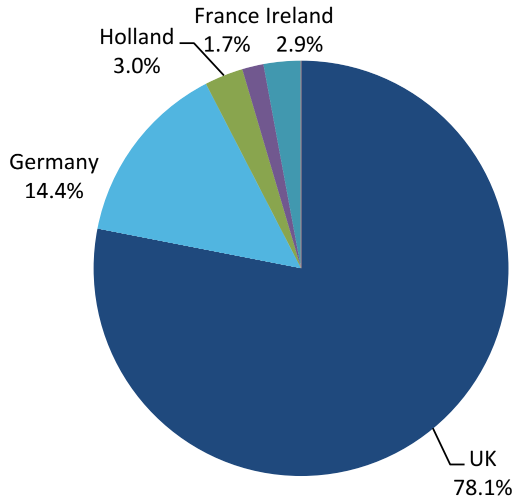
Investment Portfolio Geographical Analysis

31 March 2016



£155.3m*

31 March 2017



£163.5m*

*Dirty Fair Values (includes accrued interest)

Loan Portfolio as at 31 March 2017

Portfolio activity

The drawn fair value of the loan portfolio, excluding accrued interest, had decreased from £113 million at 31 March 2016 to £109.3 million as at 31 March 2017 following the repayment of several loans at values at or above the balance sheet value at the time of exit. During the year, the Company made £35 million of new loan commitments over four new deals, taking total loan commitments to £126 million as at 31 March 2017. This represents 67% of GAV. The average loan portfolio LTV exposure as at 31 March 2017 was 67%. The portfolio continues to provide attractive risk-adjusted returns with a weighted average yield of 12% per annum, before any back end fees, profit share or equity element contributions are taken into account.

Since 31 March 2017, the Company has funded a new commitment of £20 million to a senior loan secured against a high quality residential development asset in London. RECI has also signed a further loan commitment for £14.9 million. The Investment Manager's new loan origination pipeline remains strong, more so since the referendum, with further new loans under consideration.

Continued focus on Europe's strongest markets

The Investment Manager's expertise in originating attractive new loans enables the Company's investments to be focussed on Europe's strongest markets – the UK and Germany. These markets offer both strong deal flows and, crucially, a lender-friendly legal framework. The Company intends to continue to avoid lending in less borrower-friendly jurisdictions such as Italy, Spain and Portugal.

Loan Portfolio Summary as at 31 March 2017	
Number of loans	19
Fair Value*	£113.3m
Total Loan Commitments	£125.9m
Loans as % of GAV (drawn loan balance)	59.9%
Loans as a % of GAV (committed loan balance)	66.7%
Weighted average yield of loan portfolio	11.9%
Weighted average LTV of portfolio	68.7%
Weighted average life of portfolio (years)	1.5

*Dirty Fair Values (includes accrued interest)

Investment Manager's Report (continued)

Real estate bond portfolio
As at 31 March 2017, the bond portfolio of 24 bonds was valued at £49.8 million, with a nominal face value of £55.9 million. Taking both the positive recorded interest income and the fair value losses on the bonds in the half year, the total gross return of the bond portfolio (reportable segment profit) in the year ended 31 March 2017 was £4.6 million, compared to £2.2 million in the year ended 31 March 2016.

In December 2016 RECI purchased £15.4 million of a new bond issuance with a strong cash pay coupon secured against a prominent office building located in the City of London. Following this, in March 2017 RECI funded a total of £9.6 million of a new bond issuance with a strong cash pay coupon of 7.75% secured against a fully let UK student housing portfolio.

Bond Portfolio Summary as at 31 March 2017

Number of bonds	24
Fair Value* of Bond Portfolio as at 31 March 2017	£50.2m
Nominal Face Value of Bond Portfolio as at 31 March 2017	£55.9m

*Dirty Fair Values (includes accrued interest)

Per the latest released Fact Sheet, as at 31 May 2017, the portfolio consisted of 26 bonds with a dirty fair value of £60.7 million and a nominal face value of £65.5 million[4].

Cheyne Capital Management (UK) LLP
15 June 2017

[4]Cost and nominal shown are calculated with original notional using pool factor and FX rate as at 30 September 2016.

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 March 2017.

General Information
The Company was incorporated in Guernsey on 6 September 2005 with registered number 43634.

The "About the Company" section of the Annual Report on page 4 provides information regarding the structure of the Company, the investment strategy and the listing details of the Shares of the Company.

The Company's investment management activities are managed by the Investment Manager, who is also the AIFM. The Company has entered into an Investment Management Agreement (the "Investment Management Agreement") under which the Investment Manager manages its day-to-day investment operations, subject to the supervision of the Company's Board of Directors. The Company is an Alternative Investment Fund ("AIF") within the meaning of the Alternative Investment Fund Manager Directive ("AIFMD") and accordingly the Investment Manager has been appointed and registered as AIFM of the Company.

Principal activity and business review
The principal activity of the Company during the year was that of an investment company investing in Real Estate Credit Investments. For full details of the investment policy of the Company see page 4.

On 23 February 2017, the Company published a prospectus in relation to issues of new shares by way of a Placing Programme (the "Prospectus"). The Company raised gross proceeds of £25.3 million from the initial placing of New Ordinary Shares under the Programme (the "Initial Placing"). The Initial Placing and Prospectus were approved at an Extraordinary General Meeting of the Company on 23 March 2017 which also approved an amendment to the Company's investment objective and policy. Page 4 details the updated investment objective and policy.

The Placing Programme is intended to enable the Company to raise additional capital through the issue of up to 65 million New Ordinary Shares in the period from 23 February 2017 to 22 February 2018 and to use the net proceeds to acquire investments in accordance with its investment objective and policy.

Results and dividends
The results for the year and the Company's financial position at the end of the year are shown on pages 36 and 37. Dividends totalling £8,446,946 (31 March 2016: £7,864,398) were paid on the Ordinary Shares during the year and £3,354,434 (31 March 2016: £3,354,434) were paid on the Preference Shares.

A fourth interim dividend for the year ended 31 March 2017 of 3.0p per Ordinary Share (31 March 2016: 2.7p per share) was approved by the Directors on 15 June 2017, this has not been included as a liability in these financial statements.

Capital structure
Details of the authorised, issued and fully paid Ordinary share capital and the Preference Shares, together with details of the movements in the Company's issued share capital during the current and prior year are shown in Note 13.

The Company has one class of Ordinary Shares which carry no right to fixed dividends. Each Ordinary Share carries the right to one vote at general meetings of the Company. The holders of Preference Shares are entitled to receive dividends of 8% per annum of the Preference Share Notional Value. Preference Shares do not carry the right to vote.

In accordance with the Prospectus, the Preference Shares are due to be redeemed in September 2017. The listing for the Preference Shares will end, and the Repayment Amount funded, on 18 September 2017.

No person has any special rights of control over the Company's share capital.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Incorporation (the "Articles") and The Companies (Guernsey) Law 2008. The Articles themselves may be amended by special resolution of the Shareholders. The powers of Directors are described in the Articles and in these financial statements in the Corporate Governance Statement. Under its Articles, the Company has authority to issue an unlimited number of Ordinary Shares of no par value.

Directors' Report (continued)

Board of Directors
The Directors of the Company who served during the year:

Directors
Bob Cowdell (Chairman)
Graham Harrison
John Hallam
Sarah Evans (appointed 1 July 2016)
Mark Burton (resigned 1 July 2016)
Christopher Spencer (retired 16 September 2016)

Bob Cowdell (Chairman) (UK resident) is an independent non-executive director who has focused on the financial sector throughout his career; initially as a solicitor and then as a corporate broker and adviser. He was previously co-founder and Head of the ABN AMRO Global Investment Funds Team and then Head of Financials at RBS Hoare Govett. He is currently a non-executive director of Schroder UK Growth Fund Plc and Thomas Miller Holdings Limited and a former non-executive director of Catlin Underwriting Agencies Limited, Catlin Insurance Company (UK) Limited, XL London Market Limited and XL Insurance Company SE. A Freeman of the City of London, he is a member of the Institute of Directors and the Chartered Insurance Institute. He has been a member of the Board since June 2015.

Graham Harrison (Senior Independent Director) (Guernsey resident). Mr Harrison is co-founder and managing director of Asset Risk Consultants Limited, an investment consulting practice based in Guernsey. After obtaining a Masters in Economics from the London School of Economics, he began his career working in structured finance for Midland Montagu in London and then as a project economist for the Caribbean Development Bank in Barbados. In 1993, he moved back to Guernsey to help develop investment-related business for the Bachmann Group and in 2002 he led a management buy-out which saw Asset Risk Consultants Limited become an independent business. A Chartered Fellow of the Chartered Institute for Securities and Investment, he has been on the Board of the Company for 10 years. He is also currently a non-executive director of a number of investment and asset management companies including BH Global Limited and Volta Finance Limited.

John Hallam (Chairman of the Audit Committee) (Guernsey resident). Mr Hallam is a Fellow of the Institute of Chartered Accountants in England and Wales and qualified as an accountant in 1971. He is a former partner of PricewaterhouseCoopers having retired in 1999 after 27 years with the firm both in Guernsey and in other countries. He is the Chairman of NB Distressed Debt Investment Fund Ltd as well as being a director of a number of financial services companies, some of which are listed on the London Stock Exchange. He served for many years as a member of the Guernsey Financial Services Commission from which he retired in 2006 having been its Chairman for the previous three years. He has been a member of the board since March 2016.

Sarah Evans (appointed 1 July 2016) (Guernsey resident). Mrs Evans is a Chartered Accountant and a non-executive director of several listed investment funds. She is also a director of the UK Investment Companies' trade body, the AIC. She spent over six years with the Barclays Bank plc group from 1994 to 2001. During that time she was a treasury director and, from 1996 to 1998, she was Finance Director of Barclays Mercantile, where she was responsible for all aspects of financial control and operational risk management. Previously, Mrs Evans ran her own consultancy business advising financial institutions on all aspects of securitisation. From 1982 to 1988 she was with Kleinwort Benson, latterly as head of group finance.

The following summarises the Directors' directorships in other public companies listed on the London Stock Exchange:

Director	Company Name
Bob Cowdell	Schroder UK Growth Fund Plc
Graham Harrison	BH Global Ltd
	Volta Finance Limited
John Hallam	BH Global Ltd
	NB Distressed Debt Investment Fund Limited
Sarah Evans	Apax Global Alpha Limited
	Crystal Amber Fund Limited
	NB Distressed Debt Investment Fund Limited
	Ruffer Investment Company Limited

Mr Harrison and Mr Hallam are both on the board of BH Global Limited, but the Company believes that this does not impact their ability to be considered independent.

Mrs Evans and Mr Hallam are both on the board of NB Distressed Debt Investment Fund Limited, but the Company believes that this does not impact their ability to be considered independent.

Directors' Report (continued)

Board of Directors (continued)

The Directors' interests (number of Ordinary and Preference Shares) in the share capital of the Company at 31 March 2017 (some of which are held directly or by entities in which the Directors may have a beneficial interest) were:

	Number of Ordinary Shares	% of Company	Number of Preference Shares	% of Company
Bob Cowdell (Chairman)	29,060	0.02	-	-
John Hallam	31,000	0.02	-	-
Graham Harrison	15,000	0.01	1,875	0.00
Sarah Evans	20,000	0.02	-	-

Substantial interests in share capital

Chapter 5 of the Disclosure and Transparency Rules, requires disclosure of major shareholder acquisitions or disposals (over 5% of the shares) in the Company (see list below of major shareholders). During the year there were four notifications on 6 February 2017, 2 March 2017, 24 March 2017 and 28 March 2017 of such transactions (2016: no notifications).

List of major Ordinary Shareholders as at 31 March 2017;

Name	Total Ordinary Shares Held	% Ordinary Shares Held
Canaccord Genuity Wealth Management	8,139,592	9.21%
Fidelity Worldwide Investment (FIL)	7,071,370	8.00%
UBS Wealth Management AG	6,768,083	7.66%
Premier Asset Managers	6,434,099	7.28%
City Financial Investment Company Ltd	5,629,244	6.37%
AXA Investment Managers UK	5,150,000	5.83%
Smith & Williamson Investment Management	4,970,389	5.62%

Issued Share Capital

The issued share capital of the Company consists of 130,295,528 (31 March 2016: 114,748,915) shares, made up of 88,365,109 (31 March 2016: 72,818,496) Ordinary Shares and 41,930,419 (31 March 2016: 41,930,419) Preference Shares.

Directors and Officers Liability Insurance

Directors and Officers liability insurance is in place and due for renewal on 30 June 2017.

Listing Information

The Ordinary Shares are currently listed on the premium segment of the Official List of the UK Listing Authority and trade on the Main Market of the London Stock Exchange plc. The Preference Shares are currently listed on the standard segment of the Official List of the UK Listing Authority and trade on the Main Market of the London Stock Exchange plc.

The Investment Manager

Having reviewed the performance of the Investment Manager, the Directors are satisfied that the continued appointment of the Investment Manager on the terms agreed is in the best interests of the Shareholders and the Company. The Company has entered into the Investment Management Agreement under which the Investment Manager manages its day-to-day investment operations. Details of the Investment Management Agreement can be found in Note 17.

Auditor

Deloitte LLP has been the Company's external auditor since the Company's incorporation. A resolution for the reappointment of Deloitte LLP will be provided at the next annual general meeting.

The Audit Committee reviews the appointment of the auditor. Further information on the work of the auditor is set out in the Audit Committee Report.

Directors' Report (continued)

Principal risks and uncertainties
Principal Risks and Uncertainties are discussed in the Strategic Report of these financial statements.

Related party transactions
Related party transactions are disclosed in Note 17 of these financial statements. There has been no material changes in the related party transactions described in the last annual report.

Going concern
The Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements as, after due consideration, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. The Directors have given particular attention to the forthcoming redemption of the Preference Shares taking into account the current cash balances, inflows and outflows in respect of investments, dividends and operating expenses and, noting that there was cash available of £24.9 million at 31 March 2017 (excluding cash collateral received), consider that the Company will be able to meet its liabilities as they fall due.

Annual General Meeting
The Annual General Meeting ("AGM") of the Company will be held at 10.30am on 11 September 2017. Details of the resolutions to be proposed at the AGM, together with explanations, will appear in the Notice of Meeting to be distributed to Shareholders together with a copy of this Annual Report.

Members of the Board will be in attendance at the AGM and will be available to answer shareholder questions.

On behalf of the Board on 15 June 2017

Director **Director**

Directors' Remuneration Report

The Directors of the Company are entitled to receive an annual fee for their services as Directors. Each Director shall be entitled to be repaid all expenses reasonably incurred in the performance of their duties as Director to the Company. If by arrangement by the Board, any Director shall perform or render any special duties or services outside of his ordinary duties as a Director, he may be paid such reasonable additional remuneration as the Board may determine.

Each of the Directors has signed a letter of appointment with the Company setting out the terms of their appointment.

The Company has not established a Remuneration Committee as the Company does not have any executive Directors or employees.

Current Directors annual fees are listed in the table below:

	Annual Fees GBP
Bob Cowdell (Chairman)	60,000
John Hallam (Audit Committee Chairman)	35,000
Graham Harrison	30,000
Sarah Evans (appointed 1 July 2016)	30,000
	155,000

Directors' remuneration for the year ended 31 March 2017 was as follows:

	Year ended 31 Mar 2017 GBP	**Year ended 31 Mar 2016 GBP**
Bob Cowdell (Chairman)	70,000	50,000
John Hallam	37,681	822
Graham Harrison	35,000	30,000
Sarah Evans (appointed 1 July 2016)	27,500	-
Mark Burton (resigned 1 July 2016)	7,500	30,000
Christopher Spencer (retired 16 September 2016)	16,236	32,917
Tom Chandos (resigned 12 June 2015)	-	21,697
Talmai Morgan (resigned 11 August 2015)	-	11,034
Total Directors' remuneration	193,917	176,470

Directors remuneration for the year ended 31 March 2017 includes a one-off fee of £10,000 for the Chairman and £5,000 each for the other Directors in relation to the Placing Programme.

Corporate Governance Statement

Statement of compliance with Corporate Governance
To comply with the UK Listing Regime, the Company must comply with the requirements of the UK Corporate Governance Code. The Company is also required to comply with the Code of Corporate Governance issued by the Guernsey Financial Services Commission.

The Company is a member of the Association of Investment Companies (the “AIC”) and by complying with the AIC Code of Corporate Governance (“AIC Code”) is deemed to comply with both the UK and Guernsey Codes of Corporate Governance.

The Board has considered the principles and recommendations of the AIC Code, by reference to the guidance notes provided by the AIC Guide, and considers that reporting against these will provide appropriate information to shareholders. To ensure ongoing compliance with these principles the Board reviews a report from the Corporate Secretary identifying how the Company is in compliance and identifying any changes that might be necessary.

The Company has complied with the recommendations of the AIC Code throughout the accounting period and thus the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to:

- the role of the chief executive;
- executive Directors’ remuneration;
- the remuneration committee;
- the management engagement committee; and
- the whistle-blowing policy

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers some of these provisions are not relevant to the position of the Company as it is an externally managed investment company. The Directors are non-executive and the Company does not have employees, hence no remuneration committee or whistle-blowing policy is required. The key service providers all have whistle-blowing policies in place. The Board as a whole has fulfilled the function of the Management Engagement Committee, prior to its establishment on 22 March 2017.

The Board
The Directors details are listed in the Directors' Report, which set out their range of investment, financial and business skills and experience.

The Board meets at least four times a year and, in addition, there is regular contact between the Board, the Investment Manager and the Company Secretary including an annual strategy meeting and Investment Manager due diligence visits, when the Board attends the offices of the Investment Manager and meets with senior executives. Further, the Board requires that it is supplied in a timely manner with information by the Investment Manager, the Company Secretary and other advisors in a form and of a quality appropriate to enable it to discharge its duties.

Duties and Responsibilities
The Board has overall responsibility for optimising the Company’s performance by directing and supervising the affairs of the business and meeting the appropriate interests of shareholders and relevant stakeholders, while enhancing the value of the Company and also ensuring the protection of investors. A summary of the Board’s responsibilities is as follows:

- statutory obligations and public disclosure;
- strategic matters and financial reporting;
- risk assessment and management including reporting, compliance, governance, monitoring and control; and
- other matters having a material effect on the Company.

The Board is responsible to shareholders for the overall management of the Company. The Board has delegated the day to day operation of the Company to the Investment Manager, Administrator and the Company Secretary. The Board reserves the powers of decisions relating to the determination of investment policy, the approval of changes in strategy, capital structure, statutory obligations, public disclosure and the entering into of any material contracts by the Company.

Corporate Governance Statement (continued)

Duties and Responsibilities (continued)
The Board's responsibilities for the Annual Report are set out in the Directors' Responsibility Statement. The Board is also responsible for issuing appropriate half-yearly financial reports and other price-sensitive public reports.

The following table shows the number of regularly scheduled meetings held by the Board and each committee for the year ended 31 March 2017 as well as the number of attendances at each meeting.

	Scheduled Board Meetings Attendance	Nomination Committee Meeting Attendance	Audit Committee Meeting Attendance
Number of meetings	4	1	3
Attendance by:			
Board of Directors			
Bob Cowdell (Chairman)	4	1	3
John Hallam	4	1	3
Graham Harrison	4	1	3
Sarah Evans (appointed 1 July 2016)	3	-	2
Mark Burton (resigned 1 July 2016)	1	1	1
Christopher Spencer (retired 16 September 2016)	1	1	1

Additionally there are a number of ad-hoc meetings held during the year which, dealing primarily with administrative matters, are attended by those directors available at the time.

Chairman
The Chairman, Mr Cowdell, is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. The Chairman is also responsible for ensuring that the Directors receive accurate, timely and clear information. The Chairman is responsible for effective communication with Shareholders and can be contacted through the Company Secretary.

Senior Independent Director ("SID")
Graham Harrison is the SID and, as such, his primary roles are to support the Chairman and act as an intermediary for the other non-executive directors in matters relating to the Chairman including leading them in the annual performance evaluation of the Chairman. The SID is also available to shareholders who may have any concerns which contact through the normal channels of the Chairman and AIFM has failed to resolve or for which such contact is inappropriate. Mr Harrison can also be contacted through the Company Secretary.

Board Independence
For the purposes of assessing compliance with the AIC Code Principles 1 and 2, the Board considers all of the current Directors to be independent of the Investment Manager and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

Committees of the Board
In accordance with the AIC Code, the Board has established an Audit Committee and a Nomination Committee, in each case with formally delegated duties and responsibilities within written terms of reference.

On 22 March 2017, the Board resolved to establish a Management Engagement Committee with formally delegated duties and responsibilities within written terms of reference. The inaugural meeting of this Committee will be held in September 2017.

Audit Committee
The Audit Committee is chaired by Mr Hallam, who replaced Mr Spencer following the AGM on 16 September 2016. Mr Cowdell, Mr Harrison and Mrs Evans are also members of the Audit Committee. Messrs Burton and Spencer were also members of the Audit Committee during the period they served as Directors. Mr Hallam joined the Audit Committee on 8 June 2016 and Mrs Evans on 1 July 2016. The terms of reference of the Audit Committee state that it will meet not less than three times in each financial year. The report of the role and activities of this committee and its relationship with the external auditor is contained in the Audit Committee Report.

Corporate Governance Statement (continued)

Nomination Committee
The Nomination Committee is chaired by Mr Cowdell and its other members are Mr Harrison, Mr Hallam and Mrs Evans. Mr Burton and Mr Spencer also served as members during the year until their resignation and Mr Hallam was appointed to the Nomination Committee on 8 June 2016 and Mrs Evans on 1 July 2016. The members of the Nomination Committee are and will be independent Directors. The terms of reference state that the Nomination Committee will meet not less than once a year; will have responsibility for considering the size, structure and composition of the Board; and retirements and appointments of additional and replacement Directors; consideration of Board remuneration; and that the Nomination Committee will make appropriate recommendations to the Board.

The Board aims to have a balance of skills, experience, diversity (including gender) and length of service and knowledge of the Company. The Board undertakes an evaluation of its performance on an annual basis. The performance of each Director is considered as part of a formal review by the Nomination Committee.

The position of Chairman of each committee will be reviewed on an annual basis by the Nomination Committee. The membership of these committees and their terms of reference will be kept under review.

The performance of the Chairman of the Board will be assessed by another of the independent Directors through discussions with the other Directors.

Director Re-Election Tenure and Induction
The Nomination Committee has considered the question of a policy on Board tenure. It is strongly committed to striking the correct balance between the benefits of continuity and those that come from the introduction of new perspectives to the Board. As provided for in the AIC guidelines and in order to phase future retirements and appointments the Board has not, at this stage, adopted any specific limits to terms, but expects to refresh the board at appropriate intervals.

The Company's programme of refreshing the Board has continued during the financial year with the appointment of Mrs Evans on 1 July 2016. The Board regards all Directors as being independent. The Board has adopted a policy whereby all Directors will be proposed for re-election each year and so all Directors will be proposed for re-election at the forthcoming AGM.

Internal controls
As reported in the Strategic Report, the Board has applied principle 15 of the AIC Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Company faces. The Board regularly reviews the process, which has been in place from the start of the financial year to the date of approval of this report. The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with principle 15 of the AIC Code, the Board regularly reviews the effectiveness of the Company's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from the Investment Manager to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. To this end a Risk Matrix is maintained, which identifies the significant risks faced by the Company together with the controls to manage them; the Risk Matrix is reviewed at each scheduled Board meeting. The Board has also performed a specific assessment considering all significant aspects of internal control arising during the year covered by the report. The Audit Committee assists the Board in discharging its review responsibilities.

During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

While investment management is provided by Cheyne Capital Management (UK) LLP, the Board is responsible for setting the overall investment policy and monitors the actions of the Investment Manager at regular Board meetings. Administration and company secretarial services are provided by State Street (Guernsey) Limited. Regular compliance reports from both the Investment Manager and the Administrator are received by the Board. In addition, the Administrator makes available its Global Fund Accounting and Custody Controls Examination, SOC 1 report to the Board on an annual basis.

Custody of assets is undertaken by the Depositary, State Street Custody Services (Guernsey) Limited.

The Investment Manager has established an internal control framework and reviews the segregation of duties within this to ensure that control functions are segregated from the trading and investing functions. As a part of this framework the valuation of financial instruments is overseen by an internal pricing committee which is supported by resources which ensure that it is able to function at an appropriate level of quality and effectiveness.

Corporate Governance Statement (continued)

Internal controls (continued)
Specifically, the Investment Manager's pricing committee is responsible for establishing and monitoring compliance with valuation polices. Within the trading and investing functions, the Investment Manager has established policies and procedures that relate to the approval of all new transactions, transaction pricing sources and fair value hierarchy coding within the financial reporting system.

The Directors of the Company clearly define the duties and responsibilities of their agents and advisers, whose appointments are made by the Board after due consideration. The Board monitors the ongoing performance of such agents and advisers. Each agent and adviser maintains its own systems of internal control on which it reports to the Board. The systems are designed to ensure effective and efficient operation, internal control and compliance with laws and regulations. In establishing the systems of internal control, regard is paid to the materiality of relevant risks, the likelihood of costs being incurred and costs of control. It follows, therefore, that the systems of internal control can only provide reasonable but not absolute assurance against the risk of material misstatement or loss.

As noted earlier the review of service providers has in the past been conducted by the Board as a whole but this responsibility will now move to the newly established Management Engagement Committee.

The Board has reviewed the need for an internal audit function and has decided that the systems and procedures employed by the Administrator, Sub Administrator and Investment Manager, including their own internal controls and procedures, provide sufficient assurance that a sound system of risk management and internal control, which safeguards Shareholders' investment and the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

Shareholder Engagement
The Board believes that the maintenance of good relations with shareholders is important for the long term prospects of the Company and seeks engagement with investors. Where appropriate, the Chairman, and other Directors are available for discussion about governance and strategy with major shareholders and the Chairman ensures communication of shareholders' views to the Board. The Board receives feedback on the views of shareholders from Liberum Capital Limited (the "Corporate Broker") and the Investment Manager, and shareholders are welcome to contact the Directors at any time via the Company Secretary.

The Directors believe that the AGM provides an appropriate forum for shareholders to communicate with the Board and encourages participation. There is an opportunity for individual shareholders to question the Chairmen of the Board and the Audit Committee at the AGM. The Board assesses the results of AGMs considering whether the number of votes against or withheld in respect of resolutions are such as to require an immediate announcement to be made or discussion in the subsequent Annual Report.

Principal risks and uncertainties
The Board has carried out a robust assessment to identify the principal risks that could affect the Company, including those that would threaten its business model, future performance, solvency or liquidity. It has adopted a controls based approach to its risk monitoring requiring each of the relevant service providers, including the Investment Manager, to establish the necessary controls to ensure that all known risks are monitored and controlled in accordance with agreed procedures. The Directors receive periodic updates at their Board meetings on key risks and have adopted their own control review to ensure where possible, risks are monitored appropriately.

Each Director is aware of the principal risks and uncertainties inherent in the Company's business and understands the importance of identifying, evaluating and monitoring these risks. The Board has adopted procedures and controls that enable it to manage these principal risks and uncertainties within acceptable limits and to meet all of its legal and regulatory obligations.

The Board considers the process for identifying, evaluating and managing these principal risks and uncertainties faced by the Company on an on-going basis and these principal risks and uncertainties are reported and discussed at Board meetings. It ensures that effective controls are in place to mitigate these risks and that a satisfactory compliance regime exists to ensure all applicable local and international laws and regulations are upheld.

The Company's Principal Risks are discussed in the Strategic Report of these financial statements and in the Company's prospectus, available on the Company's website (www.recreditinvest.com) while those specifically relating to financial reporting are discussed in the Audit Committee report and Note14.

Changes in Regulation
The Board monitors and responds to changes in regulation as it impacts the Company and its policies. The issuance of the Market Abuse Regulation in July 2016 was considered by the Board and addressed through the adoption of appropriate policies. There were no other relevant changes in regulation during the year ended 31 March 2017.

Audit Committee Report

The Audit Committee
The Audit Committee is chaired by Mr Hallam, who replaced Mr Spencer following the AGM on 16 September 2016. The other members of the committee are Mr Cowdell, Mr Harrison and Mrs Evans. Messrs Burton and Spencer were members of the Audit Committee during the period they served as Directors. Only independent Directors who have no links with the Company's external Auditor or the Investment Manager, are permitted to serve on the Audit Committee. The terms of reference state that the Audit Committee will meet not less than three times in the year and meet the external auditors twice a year on which occasions the need to meet without representatives of either the Investment Manager or the Administrator being present is considered. The terms of reference include all matters indicated in the Disclosure and Transparency Rule 7.1 and the AIC Code.

The Board has taken note of the requirement that at least one member of the Committee should have recent and relevant financial experience and is satisfied that the Committee is properly constituted in that respect with all members being highly experienced and, in particular, the Chairman and Mrs Evans being chartered accountants who also sit on other audit committees.

Responsibilities
The Audit Committee has regard to the UK Code and the AIC Code. The Audit Committee examines the effectiveness of the Company's internal control systems, the integrity of the annual and half-yearly reports and Financial Statements and ensures that they are fair, balanced and understandable and provide the necessary information. They also consider the auditors' remuneration and engagement, as well as the auditors' independence and any non-audit services provided by them. Other areas of responsibility include:

- Consideration of the accounting policies of the Company;
- Consideration of the fair value of the Company's investments and income generated from the portfolio;
- Meeting with the external auditor to discuss the proposed audit plan and reporting;
- Assess the effectiveness of the external auditor and audit process;
- Consideration of the need for an internal audit function;
- Review of any independent reports in respect of the Investment Manager, the Administrator or the Depositary;
- Consideration of the risks facing the Company including the Company's Anti-Bribery, Corruption and similar obligations; and
- Monitoring the Company's procedures for ensuring compliance with statutory regulations and other reporting requirements.

In addressing all of the above considerations, the Audit Committee seeks the appropriate input from the Auditors, Investment Manager, Administrator and Legal Counsel and makes a recommendation to the Board of the Company as appropriate.

Meetings
The Audit Committee meets at least three times annually, including shortly before the Board meets to consider the Company's half-yearly and annual financial reports, and reports to the Board on its deliberations and recommendations. It also has an annual planning meeting with the Auditor and other ad hoc meetings as considered necessary.

The Audit Committee operates within clearly defined terms of reference and provides a forum through which the Company's external auditors report to the Board. The terms of reference of the Audit Committee are available from the Company's registered office. The Audit Committee receives information from the Company's service providers with the majority of information being directly sourced from the Secretary, Administrator, the Investment Manager and the external auditors. The Audit Committee considers the nature, scope and results of the Auditor's work and reviews their performance annually prior to providing a recommendation to the Board on the re-appointment or removal of the Auditor.

Significant issues considered over financial reporting
The Audit Committee has determined that the key risks of misstatement of the Company's Financial Statements relate to the judgments in respect of the fair value of the Company's portfolio and income recognition.

Additional information regarding principal risks and uncertainties is provided in the Strategic Report and in Note 14.

The Board reviews a report from the Investment Manager at each Board meeting which sets out a review of the portfolio and the performance of the portfolio. The report also details earnings forecasts and asset class analysis. As a result, the Board is able to interrogate the Investment Manager on the basis of the assumptions made and the validity of the expected forecasts.

Audit Committee Report (continued)

Significant issues considered over financial reporting (continued)

Valuation of Portfolios
The Audit Committee conducted a detailed review of each loan position through discussions with the AIFM's relevant individual asset managers challenging them as appropriate. Such discussions covered aspect such as:-

- Available and recent professional valuations
- Credit quality of the individual borrower
- Quality of the underlying collateral
- Status of development schedules compared to original plans
- Planning or other disputes
- Comparison between effective and actual yields
- Whether or not any value should be ascribed to contingent fees and potential profit participations provided for in contractual arrangements

When considering the bond investments the Audit Committee considered a number of factors including, but not restricted to:-

- Pricing sources comparison between effective and actual yields
- Depth of prices and any disparity between different marks
- Indicative liquidity
- Comparison of realised prices with previous valuations and between effective and actual yields

Having conducted this process the Committee concluded that any assumptions used were reasonable and that the valuations were in accordance with the applicable standards

Income Recognition
The Audit Committee and the Board as a whole considered and challenged the Investment Manager's expected realisation or maturity dates and the resultant expected cash flows. The Committee found that the assumptions used were reasonable and that whilst it is possible that the expected realisation dates may change over time the Committee and the Board are satisfied that the assumed realisation dates and the Investment Manager's methods of calculating income are reasonable and in line with IFRS.

Risk Management
The Company's risk assessment process and the way in which significant business risks are managed is a key area of focus for the Committee. The work of the Audit Committee is driven primarily by the Company's assessment of its principal risks and uncertainties as set out in the Strategic Report and in Note 14 of the Financial Statements and it receives reports from the Investment Manager on the Company's risk evaluation process and reviews changes to significant risks identified.

Internal Audit
The Committee considers at least once a year whether or not there is a need for an internal audit function. Currently the Committee believes that, given the Company has no employees, the SOC1 internal control report provided by the Administrator and the reporting provided by the Investment Manager are sufficient.

External Audit
Deloitte LLP has been the Company's external Auditor since the Company's inception.

The objectivity of the Auditor is reviewed by the Committee which also reviews the terms under which the external Auditor may be appointed to perform non-audit services. Auditor independence is maintained through limiting non-audit services to tax reporting and audit-related work that falls within defined categories for example Non-Mainstream Pooled Investment ("NMPI") advice. All engagements with the Auditor are subject to pre-approval from the Audit Committee and fully disclosed within the Annual Financial Report for the relevant period. A new lead audit partner is appointed every five years and the Audit Committee ensures the Auditor has appropriate internal mechanisms in place to ensure its independence.

When evaluating the external Auditor, the Committee has regard to a variety of criteria including industry experience, independence, reasonableness of audit plan, ability to deliver constructive criticism, effectiveness of communication with the Board and the Company's service providers, quality control procedures, management of audit process, price and added value beyond assurance in audit opinion.

Audit Committee Report (continued)

External Audit (continued)

David Becker has been appointed lead audit partner for the year ended 31 March 2017 and has served in that capacity since 2016. Prior to this, John Clacy was lead audit partner and had served in that capacity since 2011. The Audit Committee has considered the need for putting the audit out to tender and it is intended that such a process, in respect of the financial years commencing after 1 April 2018, will be undertaken if the continuation vote is passed.

The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor, with particular regard to the level of non-audit fees. During the year Deloitte charged non-audit fees of £72,000 for work performed on the Placing Programme and £30,000 for the 30 September 2016 interim review.

In order to maintain auditor independence, Deloitte LLP ensured the following safeguards were in place:

- review and challenge of key decisions by the Engagement Quality Review Partner and engagement quality control review by a member of the Independent Professional Standard Review Team.

Notwithstanding the provisions of such services, the Audit Committee considers Deloitte LLP to be independent of the Company and that the provision of such non-audit services is not a threat to the objectivity and independence of the conduct of the audit as appropriate safeguards are in place.

To fulfil its responsibility regarding the independence of the Auditor, the Audit Committee considers:

- discussions with or reports from the Auditor describing its arrangements to identify, report and manage any conflicts of interests; and
- the extent of non-audit services provided by the Auditor and arrangements for ensuring the independence, objectivity and robustness and perceptiveness of the auditor and their handling of key accounting and audit judgements.

To assess the effectiveness of the Auditor and the audit process, the Committee reviews:

- the Auditor's fulfilment of the agreed audit plan and variations from it;
- discussions or reports highlighting the major issues that arose during the course of the audit;
- feedback from other service providers evaluating the performance of the audit team;
- arrangements for ensuring independence and objectivity; and
- robustness of the Auditor in handling key accounting and audit judgements.

The Audit Committee is satisfied with the audit process and Deloitte LLP's effectiveness and independence as an Auditor having considered the degree of diligence and professional scepticism demonstrated by them. Having carried out the review described above and having satisfied itself that the Auditor remains independent and effective, the Audit Committee has recommended to the Board that Deloitte LLP be reappointed as Auditor for the year ending 31 March 2018.

On behalf of the Audit Committee

John Hallam
Chairman of the Audit Committee

15 June 2017

Directors’ Responsibility Statement

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

The Companies (Guernsey) Law 2008 requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards (“IFRS”). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, International Accounting Standard 1 (“IAS 1”) requires that Directors:

- properly select and apply accounting policies;
- 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 in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance; and
- make an assessment of the Company’s ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law 2008. 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 Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Responsibility Statement (continued)

We confirm that to the best of our knowledge:

1. The financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;

2. The Chairman's Statement, the Strategic Report and the Investment Manager's Report include a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties they face.

3. So far as each Director is aware, there is no relevant audit information of which the Company's Auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 249 of the Companies (Guernsey) Law 2008 (as amended).

Responsibility Statement of the Directors in Respect of the Annual Report under the Corporate Governance Code
The Directors are responsible for preparing the Annual Report in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the Directors consider the Annual Report and Financial Statements, taken as a whole, as fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

Director **Director**

15 June 2017

INDEPENDENT AUDITOR'S REPORT THE MEMBERS OF REAL ESTATE CREDIT INVESTMENTS LIMITED

Opinion on financial statements of Real Estate Credit Investments Limited

In our opinion the financial statements:

- **give a true and fair view of the state of the Company's affairs as at 31 March 2017 and of its profit for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standard Board (IASB); and**
- **have been prepared in accordance with the requirements of the Companies (Guernsey) Law.**

The financial statements comprise:

- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Cash Flows;
- the Statement of Changes in Equity; and
- the related note 1 to 21.

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

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: • Valuation of investments in Real Estate Debt Bonds and Real Estate Loans portfolios • Interest income recognised from investments The key risks are same as the prior year.
Materiality	The materiality that we used in the current year was £3.7 million, based on 2% of Net Asset Value.
Scoping	All audit work for the Company was performed directly by the audit engagement team.
Significant changes in our approach	There has been no significant changes in our approach from the prior year.

Independent Auditor's Report (Continued)

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the company

We have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 2 to the financial statements and the directors' statement on the longer-term viability of the company contained within the Strategic Report.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on page 24 that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 9 to 11 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation on page 7 as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the company and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the company and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Independent Auditor's Report (Continued)

Risk title	Valuation of Investments in Real Estate Debt Bonds ("Bonds") and Real Estate Loans ("Loans") portfolios
Risk description	Investments are the key driver of value for the Company's Net Asset Value. Judgements over fair value estimates could significantly affect NAV, which is a key performance indicator. In respect of the Bonds £49.7 million (31 March 2016: £39.5 million) there is the risk that prices used by the Company as at 31 March 2017 may not be considered to be representative of fair value. There is a risk that there may not be appropriate observable inputs at the balance sheet date which will impact the classification in the Fair Value Hierarchy under IFRS 13. In respect of the Loans £109.2 million (31 March 2016: £113.2 million) any material movement in the performance in the underlying structures or market movements could have a significant impact on the fair value assumptions applied. Judgements over the credit quality of the borrower and underlying collateral in respect of the Loans, which impact fair value estimates could significantly affect key performance indicators and fair value of Company's equity portion in the underlying loans where applicable. The accounting policies related to this risk can be found in Note 2, critical accounting judgements and key sources of estimation uncertainty in Note 3, disclosure of investments in Note 9 and risk described in the Audit Committee Report on Page 13.
How the scope of our audit responded to the risk	We critically evaluated the design and implementation of key controls relating to the investment valuation process. Our procedures in respect of the Bonds included: • obtaining independent prices of the investments held within the Bond Portfolio; • independently verifying the liquidity profile of the bond portfolio for their classification in the fair value hierarchy; and • performing back testing on the bond portfolio valuations by verifying proceeds received from the sale of investments within the bond portfolio, both during the year and subsequent to 31 March 2017, against their fair value recognised prior to the sale. Our procedures in respect of the Loans included: • challenging the assumptions made in assessing the fair value of the Loans by evaluating the monitoring data gathered by the Investment Adviser which includes reviewing loan monitoring notes, summary of financial and non-financial information provided by the borrower and progress against original business plans; • holding discussions with the Investment Adviser's analysts to assess and challenge the factors impacting the fair value of loans, including any fair value adjustments arising from equity positions in the underlying collateral; • scrutinising underlying collateral valuations and considering whether the assumptions used in those valuation are appropriate at the balance sheet date; • reviewing each loan to assess whether the loan has breached its covenants or defaulted; and • evaluating the effective yields on the portfolio against current market rates for similar portfolios with similar characteristics.

Independent Auditor's Report (Continued)

Key observations	Based on our audit work, we are satisfied that the key assumptions, judgements and estimates applied by the management to the fair value of loans and bonds are appropriate.
Risk title	**Interest income recognised from investments**
Risk description	The portfolios' expected utilisation or maturity profile and expected cashflows are key inputs in arriving at the effective interest rate used to recognise interest income over the expected life of the portfolio, and these judgements may have a significant impact on the level of the interest income recorded in the year of £15.3 million (31 March 2016: £17.7 million). The accounting policies related to this risk can be found in Note 2, disclosure of interest income in Note 6 and risk described in the Audit Committee Report on Page 23..
How the scope of our audit responded to the risk	Our procedures included: • assessing the design and implementation of key controls relating to income recognition; • for new investments acquired, recalculating the effective interest rate, which included independently verifying the Investment Manager's assumptions on the expected realisation or maturity dates against the contractual terms of the underlying positions; • for existing investments, recalculating interest income on a sample basis using the effective interest rate determined on the date acquired, which have been audited in previous years; and • challenging management judgements in respect of the estimated contractual cash flows through examination of the amortisation schedule, including the expected realisation date for each position.
Key observations	Based on our audit work, we are satisfied that the key assumptions applied by management in calculating the Interest income from the Investments are appropriate.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

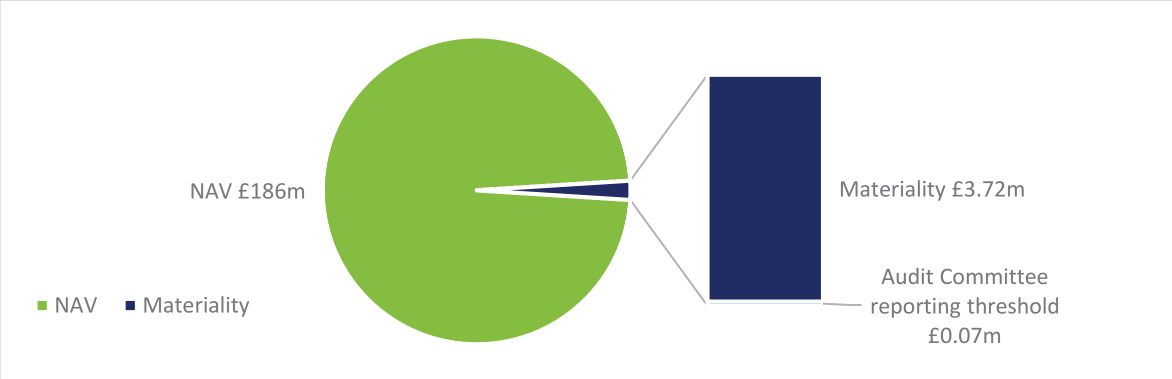
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our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

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

Materiality	£3.7 million (2016: £3.2million)
Basis for determining materiality	2% of the total Net Asset Value adding back the Preference Share Liability of the Company.

Independent Auditor's Report (Continued)

Rationale for the benchmark applied	We believe Net Asset Value is the most appropriate benchmark as it is considered to be one of the principal considerations for members of the Company in assessing financial performance and represents total shareholders' interest.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £74,000 (31 March 2016: £64,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company, as well as the service organisations and their environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or

We confirm that we have not identified any such inconsistencies or misleading statements.

Independent Auditor's Report (Continued)

- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

David Becker
for and on behalf of Deloitte LLP
Statutory Auditor
St Peter Port,
Guernsey

Statement of Comprehensive Income
For the year ended 31 March 2017

	Note	31 Mar 2017 GBP	31 Mar 2016 GBP
Interest income	6	15,288,890	17,705,838
Net gains/(losses) on financial assets and liabilities at fair value through profit or loss	4	461,095	(2,564,470)
		15,749,985	15,141,368
Operating expenses	5	(3,226,188)	(3,138,734)
Profit before finance costs		12,523,797	12,002,634
Finance costs	6	(3,444,325)	(3,464,988)
Net profit		**9,079,472**	**8,537,646**
Profit per Ordinary Share			
Basic and Diluted	8	£0.12	£0.12
Weighted average Ordinary Shares outstanding		**Number**	**Number**
Basic and Diluted	8	73,401,340	72,818,496

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

The accompanying notes form an integral part of the financial statements.

Statement of Financial Position
As at 31 March 2017

	Note	31 Mar 2017 GBP	31 Mar 2016 GBP
Non-current assets			
Investments at fair value through profit or loss	9	159,046,597	152,798,075
		159,046,597	152,798,075
Current assets			
Cash and cash equivalents	9	24,931,855	5,345,668
Derivative financial assets	9	887,000	3,166,897
Other assets	9,11	4,405,924	2,527,759
		30,224,779	11,040,324
Total assets		**189,271,376**	**163,838,399**
Equity and liabilities			
Equity			
Reserves		144,250,918	118,821,280
		144,250,918	118,821,280
Current liabilities			
Derivative financial liabilities	9	-	495,909
Cash collateral due to broker	9	390,000	-
Preference Shares	13	41,930,419	-
Other liabilities	9,12	2,700,039	2,680,682
		45,020,458	3,176,591
Non-current liabilities			
Preference Shares	13	-	41,840,528
Total liabilities		45,020,458	45,017,119
Total equity and liabilities		**189,271,376**	**163,838,399**
Shares outstanding	13	88,365,109	72,818,496
Net asset value per share		£1.632	£1.632

The accompanying notes form an integral part of the financial statements.

Signed on behalf of the Board of Directors by:

Director **Director**

15 June 2017

Statement of Changes in Equity
For the year ended 31 March 2017

	Note	GBP
Balance at 31 March 2016		118,821,280
Net profit for the year		9,079,472
Issue of Ordinary Shares of the Company	13	24,797,112
Ordinary Share dividends	7	(8,446,946)
Balance at 31 March 2017		**144,250,918**

For the year ended 31 March 2016

	Note	GBP
Balance at 31 March 2015		118,148,032
Net profit for the year		8,537,646
Ordinary Share dividends	7	(7,864,398)
Balance at 31 March 2016		**118,821,280**

The accompanying notes form an integral part of the financial statements.

Statement of Cash Flows
For the year ended 31 March 2017

	31 Mar 2017 GBP	31 Mar 2016 GBP
Profit before finance costs	12,523,797	12,002,634
Movement in investments at fair value through profit or loss	(503,710)	(5,938,417)
Proceeds from purchases and sales of investments	(5,744,812)	(325,991)
Movement in financial derivative instruments	1,783,988	1,678,888
Operating cash flows before movement in working capital	**8,059,263**	**7,417,114**
(Increase)/decrease in receivables	(1,878,165)	956,034
Increase in payables	19,357	100,182
Movement in working capital	**(1,858,808)**	**1,056,216**
Net cash inflow from operating activities	**6,200,455**	**8,473,330**
Financing activities		
Ordinary Shares issued	24,797,112	-
Distributions paid to Ordinary Shareholders	(8,446,946)	(7,864,398)
Preference dividends paid	(3,354,434)	(3,354,434)
Net cash inflow/outflow from financing activities	**12,995,732**	**(11,218,832)**
Net increase/(decrease) in cash and cash equivalents	19,196,187	(2,745,502)
Cash and cash equivalents at the start of the year	5,345,668	8,091,170
Cash and cash equivalents at end of year	**24,541,855**	**5,345,668**

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements
For the year ended 31 March 2017

1. General information

Real Estate Credit Investments Limited ("RECI" or the "Company") was registered on 6 September 2005 with registered number 43634 and is incorporated in Guernsey, Channel Islands. The Company commenced its operations on 8 December 2005.

The Company is a non-cellular company, having converted from a protected cell company called Real Estate Credit Investments PCC Limited on 25 October 2016. The Company is, and continues to be, regulated as an authorised, closed-ended investment scheme by the Guernsey Financial Services Commission ("GFSC").

The investment objective is to invest primarily in debt secured by commercial or residential properties in Western Europe and the UK ("Real Estate Debt Investments"). The Real Estate Debt Investments may take different forms but will be likely to be: (i) secured real estate loans; and (ii) debentures or any other form of debt instrument, securitised tranches of secured real estate related debt securities, for example, Retail Mortgage Backed Securities ("RMBS") and Commercial Mortgage Backed Securities ("CMBS") (together Mortgage Backed Securities ("MBS")).

The Ordinary Shares reflect the performance of the Company's real estate debt strategy. The Ordinary Shares are listed on the premium segment of the Official List of the UK Listing Authority and trade on the Main Market of the London Stock Exchange plc (ticker RECI). The Ordinary Shares offer investors a levered exposure to a portfolio of real estate debt investments and aim to pay a quarterly dividend. Such leverage is provided by the Preference Shares which confer the right to a preferential cumulative preference dividend (which is an amount equal to 8 per cent per annum of the Preference Share Notional Value) payable quarterly on each Payment Date. The Preference Shares are listed on the standard segment of the Official List of the UK Listing Authority and trade on the Main Market of the London Stock Exchange plc (ticker RECP), and are scheduled to be redeemed in September 2017.

The real estate debt investment strategy of the Company focuses on secured residential and commercial debt in the UK and Western Europe. In making these investments the Company uses the expertise and knowledge of its investment manager, Cheyne Capital Management (UK) LLP ("Cheyne" or the "Investment Manager"), an investment management firm authorised and regulated by the UK Financial Conduct Authority. The Company has adopted a long-term strategic approach to investing and focuses on identifying value in real estate debt.

The liabilities in relation to the Preference Shares, being both quarterly Preference Dividends and the repayment of the final capital entitlement of the Preference Shares (the "Final Capital Entitlement"), are borne by the Company. The Company will continue to fulfill its obligations towards the Preference Shareholders with respect to the distribution of Preference Dividends until the Preference Share redemption in September 2017. Such obligations are met using the income available and, if necessary, the reserves.

The Company's investment management activities are managed by the Investment Manager, who is also the Alternative Investment Fund Manager ("AIFM"). The Company has entered into an Investment Management Agreement (the "Investment Management Agreement") under which the Investment Manager manages its day-to-day investment operations, subject to the supervision of the Company's Board of Directors. The Company is an Alternative Investment Fund ("AIF") within the meaning of the Alternative Investment Fund Manager Directive ("AIFMD") and accordingly the Investment Manager has been appointed as AIFM of the Company, having no employees of its own. For its services, the Investment Manager receives a monthly management fee, expense reimbursements and accrues a performance fee (see Note 17). The Company has no ownership interest in the Investment Manager.

State Street (Guernsey) Limited is the Administrator and provides all administration and secretarial services to the Company in this capacity.

2. Significant accounting policies

Statement of compliance
The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect, together with applicable legal and regulatory requirements of Guernsey Law and the Listing Rules of the UK Listing Authority. The same accounting policies, presentation and methods of computation have been followed in these financial statements as were applied in the preparation of the Company's audited financial statements for the year ended 31 March 2016.

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

2. Significant accounting policies (continued)

There are a number of new standards, amendments and interpretations issued but not effective and not early adopted as detailed below

		Effective for periods beginning on or after
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers*	1 January 2018

*The IASB deferred the effective date of IFRS 15 to 1 January 2018.

The Directors have considered the above new standards and do not anticipate that they will have any significant impact on the Financial Statements in future periods.

Basis of preparation
The financial statements of the Company are prepared under International Financial Reporting Standards on the historical cost or amortised cost basis modified by the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments held for trading and financial instruments classified or designated at fair value through profit or loss.

Going Concern
The Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements as, after due consideration, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. The Directors have given particular attention to the forthcoming redemption of the Preference Shares taking into account the current cash balances, inflows and outflows in respect of investments, dividends and operating expenses and, noting that there was cash available of £24.9 million at 31 March 2017 (excluding cash collateral received), consider that the Company will be able to meet its liabilities as they fall due.

Investments
Investments in Real Estate Credit Investments are recognised initially at their acquisition cost, being fair value at acquisition date. Thereafter they are remeasured at fair value and are designated as fair value through profit or loss investments in accordance with the Amendment to International Accounting Standard 39 (“IAS 39”) Financial Instruments: Recognition and Measurement. The Fair Value Option, as the Company is an investment Company whose business is investing in financial assets with a view to profiting from their total return in the form of interest and changes in fair value.

Financial assets classified as at fair value through profit or loss are recognised/derecognised by the Company on the date it commits to purchase/sell investments.

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

2. Significant accounting policies (continued)

Cash and cash equivalents
Cash and cash equivalents includes amounts held in interest bearing accounts and overdraft facilities with original maturities of less than three months.

Derivative financial instruments
Derivative financial instruments used by the Company to manage its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities that do not qualify for hedge accounting are accounted for as trading instruments. Derivative financial instruments are recognised initially at fair value.

Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on reassessment of fair value is recognised immediately in the Statement of Comprehensive Income.

The fair value of options is their quoted market price at the reporting date. Broker marks are obtained for these positions. The change in value is recorded in net gains/(losses) in the Statement of Comprehensive Income. Realised gains and losses are recognised on the expiry or sale of the option.

The fair value of an open forward foreign currency exchange contract is calculated as the difference between the contracted rate and the current forward rate that would close out the contract on the reporting date. The change in value is recorded in net gains/(losses) in the Statement of Comprehensive Income. Realised gains and losses are recognised on the maturity of a contract, or when the contract is closed out and they are transferred to realised gains or losses in the Statement of Comprehensive Income.

Fair value
All financial assets carried at fair value are initially recognised at cost and subsequently re-measured at fair value. If independent prices are unavailable, the fair value of the financial asset is estimated by reference to market information which includes, but is not limited, to broker marks, prices of comparable assets and using pricing models incorporating discounted cash flow techniques.

These pricing models apply assumptions regarding asset specific factors and economic conditions generally, including delinquency rates, severity rates, prepayment rates, default rates, maturity profiles, interest rates and other factors that may be relevant to each financial asset.

The objective of a fair value measurement is to determine the price at which an orderly transaction would take place between market participants on the measurement date; rather than the price arrived at in a forced liquidation or distressed sale. Where the Company has considered all available information and there is evidence that the transaction was forced, it will not use such a transaction price as being determinative of fair value.

Note 3 provides specific information regarding the determination of fair value for the Company's bonds and loans.

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported within assets and liabilities when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

De-recognition of financial assets and liabilities
The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to the contractual cash flows on the financial asset in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred and the transfer qualifies for derecognition in accordance with IAS 39. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires. Gains or losses on derecognition are calculated on an average cost basis.

Interest-bearing loans and borrowings
Interest bearing borrowings are recognised initially at fair value. Transaction costs are expensed in the Statement of Comprehensive Income. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Statement of Comprehensive Income using the effective interest rate method. Financing costs associated with the issuance of financings are recognised in the Statement of Comprehensive Income using the effective interest rate method.

Preference Shares
The value of the Preference Shares represents an obligation of the Company to pay the Preference Share’s Notional Value on winding up of the Company or on redemption of the Preference Shares in accordance with their terms. The fair value of the Preference Shares amounts to the Notional Value of the Preference Shares, less the costs arising from the issue of these shares. Subsequent to initial measurement, the Preference Shares are remeasured at amortised cost using the effective interest rate method over the life of the Preference Shares being seven years ending in September 2017.

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

2. Significant accounting policies (continued)

Preference Shares (continued)
The Preference Shares have been classified as current liabilities in these financial statements since they are redeemable in September 2017. The amortisation of the Preference Shares are treated as a finance cost through the Statement of Comprehensive Income. The Preference Shareholders are entitled to a Preference Dividend equal to 8% per annum of the Preference Share Notional Value. The Preference Dividends are accrued at each valuation point and paid quarterly. Dividends payable to Preference Shareholders are shown as a finance cost in the Statement of Comprehensive Income.

Expenses attributable to any Placing and Open Offer
The expenses of the Company attributable to any Placing and Open Offer are those which are necessary to implement the Placing and Open Offer. Such expenses included registration, listing and admission fees, corporate finance fees, printing, advertising and distribution costs, legal fees and other applicable expenses.

These expenses are allocated to the Ordinary and any other class of Shareholders for which funds are raised based on a pro-rata allocation as appropriate. Expenses attributable to the Ordinary Shareholders are recognised as incurred and are included as a reduction to Reserves in the Statement of Changes in Equity. Expenses attributable to the Preference Shareholders are being amortised over the remaining life of the Preference Shares and the amortisation is included in Finance Costs in the Statement of Comprehensive Income.

Treasury Shares
Where the Company purchases the Company's shares in the open market (Ordinary and Preference Shares), the consideration paid is deducted from the total Equity in the case of Ordinary Shares and from the total Preference Shares liability in the case of Preference Shares and such shares are classified as Treasury Shares until they are cancelled. Where such shares are subsequently sold or reissued any consideration received is included in total Equity or Preference Share liability as the case may be.

Functional and presentation currency
The functional and presentation currency of the Company is GBP (£).

Foreign currency transactions
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are translated to GBP at the foreign exchange rate ruling at that date.

Foreign exchange differences arising on translation are recognised in gains and losses on financial assets and liabilities at fair value through profit or loss in the Statement of Comprehensive Income. Foreign currency denominated non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to GBP at foreign exchange rates ruling at the reporting date. Differences arising on translation of these non-monetary assets and liabilities between valuation points are recognised in the Statement of Comprehensive Income.

Interest income
Interest income is accrued based on the expected realisation date of the investments using the effective interest method as defined under IAS 39. Where the Company adjusts its expected cash flow projections to take account of any change in underlying assumptions, such adjustments are recognised in Interest income in the Statement of Comprehensive Income by reflecting changes in a revised amortised cost value of the investment calculated using the original effective interest rate and applying the original effective interest rate to this revised amortised cost value for the purposes of calculating future income.

Expenses
All expenses are included in the Statement of Comprehensive Income on an accruals basis.

Taxation
The Company is a tax-exempt Guernsey limited company and accordingly, no provision for tax is made.

Other receivables
Other receivables do not carry any interest and are short-term in nature and are accordingly stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

2. Significant accounting policies (continued)

Financial liabilities and equity
Financial liabilities and equity are classified according to the substance of the underlying contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Financial liabilities and equity are initially recorded at the proceeds received, net of issue costs and subsequently at amortised cost. The Ordinary Shares have been classified as equity and the Preference Shares have been classified as liabilities.

Other accruals and payables
Other accruals and payables are not interest-bearing and are stated at their accrued value.

Segment information
The Company has two reportable segments, being the Bond Portfolio and the Loan Portfolio. The real estate debt investment strategy of the Company focuses on secured commercial and residential debt in the UK and Western Europe. Each segment engages in separate business activities and the results of each segment are regularly reviewed by the Board of Directors which fulfils the role of Chief Operating Decision Maker for performance assessment purposes.

3. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies (described in Note 2 above), the Company has determined that the following judgements and estimates have the most significant effect on the amounts recognised in the financial statements:

Valuation of investments
In accordance with the Company's accounting policies, the fair value of financial assets is based on quoted prices where such prices are available from a third party in a liquid market.

Bonds held in the Company are valued using independent market prices (supplied by Markit or using broker prices).

The Company has made loans into structures to gain exposure to real estate secured debt in the UK and Western Europe. These loans are not traded in an active market and there are no independent quotes available for these loans. The fair values of financial instruments that are not traded in an active market are determined using valuation techniques such as modelling. The fair value of these loans is linked directly to the value of the real estate loans in the underlying structure the Company invests in, which are determined based on modelled expected cash flows (drawdown principal and interest repayments, and maturity dates) with effective yields ranging from 7.6% to 26.0%. Adjustments in the fair value of the real estate loans are considered in light of changes in the credit quality of the borrower and underlying property collateral. On origination of the loan, the Investment Manager performs due diligence on the borrower and related security/property. This includes obtaining a valuation of the underlying property (to assess loan-to-value of the investment). In most instances the terms of the loan require periodic re-valuation of the underlying property to check against loan-to-value covenants.

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques (such as modelling).

The valuation policy for contingent fees and potential profit participations provided for in contractual arrangements is to mark them at fair value, which in most instances have been obtained for a zero or de-minimis cost, and they are held at this value until there is sufficient evidence that the positon should be revalued.

4. Net gains and losses on financial assets and liabilities at fair value through profit or loss

	31 Mar 2017 GBP	31 Mar 2016 GBP
Net gains/(losses)		
Net gains on investments at fair value through profit or loss	4,577,664	4,715,306
Net losses on options	(2,358,792)	(1,648,316)
Net losses on foreign exchange instruments and other foreign currency transactions	(1,757,777)	(5,631,460)
Net gains/(losses)	**461,095**	**(2,564,470)**

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

5. Operating expenses

	31 Mar 2017 GBP	31 Mar 2016 GBP
Investment management, performance, depositary and administration fees		
Investment management fee	2,038,574	2,031,752
Performance fee	62,520	195,358
Administration fee	148,285	137,882
Depositary fee	55,086	55,200
	2,304,465	**2,420,192**
Other operating expenses		
Audit fees	110,008	80,000
Directors fees	168,924	178,798
Legal fees	169,650	170,000
One off transaction costs	270,177	-
Other expenses	202,964	289,744
	921,723	**718,542**
Total operating expenses	**3,226,188**	**3,138,734**

6. Interest income and finance income and costs

The following table details finance costs from financial assets and liabilities for the year:

	31 Mar 2017 GBP	31 Mar 2016 GBP
Interest income		
Investments designated at fair value through profit or loss		
Real Estate Debt Investments - Bonds	2,578,943	4,700,366
Real Estate Debt Investments - Loans	12,469,382	12,939,367
Receivables (including cash and cash equivalents)	240,565	66,105
Total interest income	**15,288,890**	**17,705,838**
Finance costs:		
Preference Shares issuance expense amortised	(89,891)	(110,554)
Dividends paid to Preference Shareholders	(3,354,434)	(3,354,434)
Total finance costs	**(3,444,325)**	**(3,464,988)**

At 31 March 2017, there were no outstanding capitalised Preference Shares issuance expenses (31 March 2016: £89,891).

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

7. Dividends

	31 Mar 2017 GBP	31 Mar 2016 GBP
Ordinary Share Dividends		
Fourth dividend for the year ended 31 March 2016/31 March 2015	2,548,648	1,966,099
First dividend for the year ended 31 March 2017/31 March 2016	1,966,099	1,966,100
Second dividend for the year ended 31 March 2017/31 March 2016	1,966,100	1,966,100
Third dividend for the year ended 31 March 2017/31 March 2016	1,966,099	1,966,099
Dividends paid to Ordinary Shareholders in the year	**8,446,946**	**7,864,398**

	31 Mar 2017 GBP/Share	31 Mar 2016 GBP/Share
Dividends per Share		
Fourth dividend for the year ended 31 March 2016*/31 March 2015	0.035	0.027
First dividend for the year ended 31 March 2017/31 March 2016	0.027	0.027
Second dividend for the year ended 31 March 2017/31 March 2016	0.027	0.027
Third dividend for the year ended 31 March 2017/31 March 2016	0.027	0.027
Dividends paid to Ordinary Shareholders in the year	**0.116**	**0.108**

*The amount of £0.035 per ordinary share includes a special dividend of £0.008 per ordinary share, which was declared on 17 June 2016.

Preference Share Dividends
The Preference Shareholders are entitled to a preference dividend equal to 8% per annum of the Preference Share Notional Value. The preference dividend is accrued at each valuation point and paid quarterly and are shown as a Finance cost in the Statement of Comprehensive Income using the effective interest rate method.

For the year ended 31 March 2017:	Payment Date	31 Mar 2017 GBP
Preference Share Dividends		
Period 1 April 2016 to 30 June 2016	8 Jul 16	838,609
Period 1 July 2016 to 30 September 2016	30 Sep 16	838,608
Period 1 October 2016 to 31 December 2016	11 Jan 17	838,609
Period 1 January 2017 to 31 March 2017	31 Mar 17	838,608
Total distributions to Preference Shareholders		**3,354,434**

For the year ended 31 March 2016:	Payment Date	31 Mar 2016 GBP
Preference Share Dividends		
Period 1 April 2015 to 30 June 2015	30 Jun 15	838,609
Period 1 July 2015 to 30 September 2015	29 Sep 15	838,608
Period 1 October 2015 to 31 December 2015	31 Dec 15	838,609
Period 1 January 2016 to 31 March 2016	31 Mar 16	838,608
Total distributions to Preference Shareholders		**3,354,434**

Under Guernsey law, companies can pay dividends provided they satisfy the solvency test prescribed under The Companies (Guernsey) Law 2008 which considers whether a company is able to pay its debts when they become due and whether the value of a company's assets is greater than its liabilities.

The Directors considered that the Company satisfied the solvency test for each dividend payment during the years ended 31 March 2017 and 31 March 2016.

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

8. Profit per Ordinary Share

	31 Mar 2017 GBP	31 Mar 2016 GBP
The calculation of the basic and diluted earnings per share is based on the following data:		
Net profit attributable to Ordinary shares	9,079,472	8,537,646
Weighted average number of Ordinary Shares for the purposes of basic and diluted earnings per share	**73,401,340**	**72,818,496**

Weighted average number of Ordinary Shares increased due to the issue of Ordinary Shares during the year (for more details refer to note 13).

9. Categories of financial instruments

The following table details the categories of financial assets and liabilities held by the Company at the year end date.

	31 Mar 2017 GBP	31 Mar 2016 GBP
Assets		
Financial assets designated at fair value through profit or loss:		
Real Estate Credit Investments – bonds	49,774,418	39,555,818
Real Estate Credit Investments – loans	109,272,179	113,242,257
Investments at fair value through profit or loss	159,046,597	152,798,075
Derivative financial assets		
Call and put options	808,105	3,166,897
Forward foreign exchange contracts	78,895	-
Loans and receivables:		
Cash and cash equivalents	24,931,855	5,345,668
Other assets	4,405,924	2,527,759
Total assets	**189,271,376**	**163,838,399**
Liabilities		
Derivative financial liabilities		
Forward foreign exchange contracts	-	495,909
Liabilities held at amortised cost:		
Cash collateral due to broker	390,000	-
Other liabilities	2,700,039	2,680,682
Preference Shares	41,930,419	41,840,528
Total liabilities	**45,020,458**	**45,017,119**

See Note 15 for a summary of the movement in fair value in the Company's investments for the year.

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

10. Derivative Contracts

Options:
The following options contracts were open as at 31 March 2017:

Counterparty	Expiry Date	Description	Currency	Notional Amount	Strike price	Fair Value GBP
Options purchased						
Goldman Sachs*	30 Jun 2017	EUR Put GBP Call	GBP	30,432,500	0.870	808,105
Options purchased at fair value						808,105

Forward foreign exchange contracts:
The following forward foreign exchange contracts were open as at 31 March 2017:

Counterparty	Settlement Date	Buy currency	Buy amount	Sell currency	Sell amount	Unrealised Gain/(Loss) GBP
Goldman Sachs*	20 Jun 2017	GBP	1,655,401	EUR	1,900,000	27,334
Goldman Sachs*	20 Jun 2017	GBP	3,470,159	EUR	4,000,000	42,649
Goldman Sachs*	20 Jun 2017	GBP	694,414	EUR	800,000	8,912
Unrealised gain on forward foreign exchange contracts						78,895

Options:
The following options contracts were open as at 31 March 2016:

Counterparty	Expiry Date	Description	Currency	Notional Amount	Strike price	Fair Value GBP
Options purchased						
Goldman Sachs*	30 Jun 2017	EUR Put GBP Call	GBP	30,432,500	0.870	3,166,897
Options purchased at fair value						3,166,897

Forward foreign exchange contracts:
The following forward foreign exchange contracts were open as at 31 March 2016:

Counterparty	Settlement Date	Buy currency	Buy amount	Sell currency	Sell amount	Unrealised Gain/(Loss) GBP
Goldman Sachs*	20 Jun 2016	GBP	31,682,340	EUR	40,500,000	(495,909)
Unrealised loss on forward foreign exchange contracts						(495,909)

*Goldman Sachs International

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

11. Other assets

	31 Mar 2017 GBP	31 Mar 2016 GBP
Bond interest receivable	773,107	415,450
Loan income receivable	3,632,817	2,106,534
Other receivables	-	5,775
	4,405,924	**2,527,759**

12. Other liabilities

	31 Mar 2017 GBP	31 Mar 2016 GBP
Investment management fee payable	180,778	172,100
Performance fee payable*	1,686,739	1,627,132
Administration fee payable	23,799	11,942
Depositary fee payable	44,832	36,854
Other expense accruals	763,891	832,654
Total liabilities	**2,700,039**	**2,680,682**

*The performance fee payable will be determined as at the quarter end following the first Continuation Resolution in September 2017 and paid shortly thereafter.

13. Share capital

The issued share capital of the Company consists of Ordinary Shares and Preference Shares and the Company does not have any externally imposed minimum capital requirements.

Authorised Share Capital	31 Mar 2017 Number of Shares	31 Mar 2016 Number of Shares
Company Ordinary Shares of no par value each	Unlimited	Unlimited
Preference Share at par	44,962,834	44,962,834

Company Ordinary Shares Issued and fully paid	31 March 2017 Number of Shares	31 March 2016 Number of Shares
Balance at start of the year	72,818,496	72,818,496
Ordinary Shares issued during the year	15,546,613	-
Balance at end of the year	**88,365,109**	**72,818,496**

No Ordinary Shares were bought back or cancelled during the year ended 31 March 2017 or during the year ended 31 March 2016.

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

13. Share capital (continued)

Preference Shares Issued and fully paid	31 Mar 2017 Number of Preference Shares	31 Mar 2017 GBP	31 Mar 2016 Number of Preference Shares	31 Mar 2016 GBP
Preference Shares at start of year	41,930,419	41,840,528	41,930,419	41,729,974
Amortised issue costs allocated to Preference Shares	-	89,891	-	110,554
Balance at end of year	**41,930,419**	**41,930,419**	**41,930,419**	**41,840,528**

The value of the Preference Shares represents an obligation on the Company to pay the Preference Shares par value on winding up of the Company or on redemption of the Preference Shares in accordance with their terms. In accordance with the Prospectus, the Preference Shares are due to be redeemed in September 2017 and accordingly are treated as a current liability at 31 March 2017. The listing for the Preference Shares will end, and the Repayment Amount funded, on 18 September 2017.

At 31 March 2017, 41,930,419 Preference Shares were in issue with a par value of £1 per share (31 March 2016: 41,930,419 Preference Shares). All issued Ordinary Shares are fully paid.

The holders of Preference Shares are entitled to receive dividends of 8% per annum of the Preference Share notional value, do not have voting rights and, on redemption, are only entitled to a return of the notional value which is classified as a liability.

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The Company's overall strategy was outlined in the new prospectus which was published as part of the Placing Programme on 23 February 2017. The capital structure of the Company consists of net debt (the preference shares) and equity of the Company (Statement of Changes in Equity disclosed on page 38). The Company is not subject to any externally imposed capital requirements.

The Preference Shares shall be redeemed by the Company in the following circumstances:

a) at any time, by way of the purchase of any such Preference Shares by the Company through the facilities of the London Stock Exchange; or

b) upon a change of control of the Company (defined as the acquisition by a single person or persons acting in concert of more than 50% of the voting rights attached to the Ordinary Shares), but only if a majority of Preference Shareholders attending and voting at a special class meeting of Preference Shareholders (which shall be convened within 60 days of the change of control) so resolve by way of an ordinary resolution, at a price equal to the Preference Share Notional Value increased by any accrued but unpaid Preference Dividend or any further sums payable in respect of the Preference Dividend (the "Repayment Amount"); or

c) if more than 75% of the Preference Shares have been redeemed before the expiry of the seven year period referred to under paragraph (d) below, by way of a mandatory redemption programme launched by the Company at its sole discretion, at a price equal to the higher of (i) the Repayment Amount, or (ii) the average mid-market closing price over the five Business Days prior to the announcement of the launch of such programme; or

d) if not redeemed earlier pursuant to paragraphs (a), (b) or (c) above, on a date that is seven years after their issue at the Repayment Amount, in accordance with the Prospectus, the Preference Shares are due to be redeemed in September 2017. The listing for the Preference Shares will end, and the Repayment Amount funded, on 18 September 2017.

14. Financial Instruments and associated risks

The Company's investment activities expose it to various types of risk which are associated with the financial instruments and markets in which it invests. The Company's risk management policies seek to minimise the potential adverse effects of these risks on the Company's financial performance.

The financial risks to which the Company is exposed include market price risk, interest rate risk, liquidity risk, currency risk, credit risk, prepayment and re-investment risk. In certain instances as described more fully below, the Company enters into derivative transactions in order to help mitigate particular types of risk.

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

14. Financial Instruments and associated risks (continued)

a) Market risk

Market risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk comprises of interest rate risk, currency risk and other price risk.

The Company's strategy on the management of market risk is driven by the Company's investment objectives detailed in Note 1 which in respect of the Company is to invest primarily in debt secured by commercial or residential properties in Western Europe and the United Kingdom.

The Company's market risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures detailed below.

The sensitivity analysis below is based on a change in one variable while holding all other variables constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in foreign currency rate and change in market values. In addition, as the sensitivity analysis uses historical data as a basis for determining future events, it does not encompass all possible scenarios, particularly those that are of an extreme nature.

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company is exposed to currency risk to the extent that foreign exchange rates fluctuate as it has financial instruments that are denominated in currencies other than GBP.

The Company manages its foreign exchange exposure through a mixture of currency options and forward foreign currency exchange contracts. These instruments are detailed in Note 10.

The currency profile of the Company, including derivatives at fair value, at the year end date was as follows:

As at 31 March 2017:

Company	Net currency exposure (in GBP)	Monetary Assets (in GBP)	Non-Monetary Assets (in GBP)	Monetary Liabilities (in GBP)	Non-Monetary Liabilities (in GBP)	Forward FX Contracts GBP
GBP	113,224,552	63,818,761	88,216,274	(41,930,419)	(2,700,039)	5,819,975
EUR	31,004,010	11,283,261	25,461,829	-	-	(5,741,080)
USD	22,356	22,356	-	-	-	-
	144,250,918	**75,124,378**	**113,678,103**	**(41,930,419)**	**(2,700,039)**	**78,895**

As at 31 March 2016:

Company	Net currency exposure (in GBP)	Monetary Assets (in GBP)	Non-Monetary Assets (in GBP)	Monetary Liabilities (in GBP)	Non-Monetary Liabilities (in GBP)	Forward FX Contracts GBP
GBP	90,943,390	33,149,881	70,632,379	(41,840,528)	(2,680,682)	31,682,340
EUR	27,857,580	14,898,193	45,137,636	-	-	(32,178,249)
USD	20,310	20,310	-	-	-	-
	118,821,280	**48,068,384**	**115,770,015**	**(41,840,528)**	**(2,680,682)**	**(495,909)**

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

14. Financial Instruments and associated risks (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

At 31 March 2017, had the GBP strengthened by 5% in relation to all currency exposure of the Company with all other variables held constant (and not taking into account any currency hedges that were in place at year end), equity of the Company and the net profit/(loss) per the Statement of Comprehensive Income would have changed by the amounts shown below. The analysis is performed on the same basis for 2016.

	31 Mar 2017 GBP	31 Mar 2016 GBP
EUR	(1,812,397)	(1,756,820)
GBP	N/A	N/A
USD	(1,398)	(1,460)
Total	**(1,813,795)**	**(1,758,280)**

A 5% weakening of the GBP and the Euro against the above currencies respectively would have resulted in an equal but opposite effect on the equity of the Company and net profit/(loss) per the Statement of Comprehensive Income to the amounts shown above, on the basis that all other variables remained constant.

The sensitivity analysis reflects how equity of the Company would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date. Management has determined that a fluctuation of 5% in FX rates is reasonably possible, considering the environment in which the Company operates.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's interest rate risk is managed by the Investment Manager in accordance with policies and procedures detailed below.

The Company invests in fixed and floating rate real estate related debt securities which include RMBS or CMBS (together MBS). Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cash flow.

Should interest rates rise by 1.00% (100 basis points) in relation to the fixed rate securities held by the Company, the estimated impact on the net asset value of the Company is a decrease of £2,128,158 (31 March 2016: decrease £2,877,902). A decrease in interest rates by 100 basis points is estimated to result in an increase in the net asset value of the Company by a similar amount. These estimates are calculated based on the fair value of the fixed rate securities including accrued interest held by the Company at 31 March 2017 and their weighted average lives. A fundamental principle of bond investing is that market interest rates and bond prices generally move in opposite directions. When market interest rates rise, prices of fixed-rate bonds fall.

The Preference Shareholders are entitled to receive a preference dividend amounting to 8% per annum of the Preference Share Notional Value.

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

14. Financial Instruments and associated risks (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

The interest rate profile of the Company at 31 March 2017 was as follows:

	Fixed GBP	Floating GBP	Non-interest bearing GBP	Total GBP
Investments at fair value through profit or loss	147,831,574	11,215,023	-	159,046,597
Derivative financial assets				
- Options	-	-	808,105	808,105
- Forward foreign exchange contracts	-	-	78,895	78,895
Other assets	-	-	4,405,924	4,405,924
Cash and cash equivalents	-	24,931,855	-	24,931,855
Cash collateral due to broker	-	(390,000)	-	(390,000)
Preference shares	(41,930,419)	-	-	(41,930,419)
Other liabilities	-	-	(2,700,039)	(2,700,039)
Total	**105,901,155**	**35,756,878**	**2,592,885**	**144,250,918**

The maturity profile of the Company at 31 March 2017 was as follows:

	Net Assets GBP	Within one year GBP	One to five years GBP	Over five years GBP
Investments at fair value through profit or loss	159,046,597	50,946,567	68,478,915	39,621,115
Derivative financial assets				
- Options	808,105	808,105	-	-
- Forward foreign exchange contracts	78,895	78,895	-	-
Other assets	4,405,924	4,405,924	-	-
Cash and cash equivalents	24,931,855	24,931,855	-	-
Cash collateral due to broker	(390,000)	(390,000)	-	-
Preference shares	(41,930,419)	(41,930,419)	-	-
Other liabilities	(2,700,039)	(2,700,039)	-	-
Net Assets	**144,250,918**	**36,150,888**	**68,478,915**	**39,621,115**

The interest rate profile of the Company at 31 March 2016 was as follows:

	Fixed GBP	Floating GBP	Non-interest bearing GBP	Total GBP
Investments at fair value through profit or loss	126,693,708	26,104,367	-	152,798,075
Derivative financial assets				
- Options	-	-	3,166,897	3,166,897
Other assets	-	-	2,527,759	2,527,759
Cash and cash equivalents	-	5,345,668	-	5,345,668
Preference shares	(41,840,528)	-	-	(41,840,528)
Derivative financial liabilities				
- Forward foreign exchange contracts	-	-	(495,909)	(495,909)
Other liabilities	-	-	(2,680,682)	(2,680,682)
Total	**84,853,180**	**31,450,035**	**2,518,065**	**118,821,280**

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

14. Financial instruments and associated risks (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

The maturity profile of the Company at 31 March 2016 was as follows:

	Net Assets GBP	Within one year GBP	One to five years GBP	Over five years GBP
Investments at fair value through profit or loss	152,798,075	48,075,116	97,659,893	7,063,066
Derivative financial assets				
- Options	3,166,897	-	3,166,897	-
Other assets	2,527,759	2,527,759	-	-
Cash and cash equivalents	5,345,668	5,345,668	-	-
Preference shares	(41,840,528)	-	(41,840,528)	-
Derivative financial liabilities				
- Forward foreign exchange contracts	(495,909)	(495,909)	-	-
Other liabilities	(2,680,682)	(2,680,682)	-	-
Net Assets	**118,821,280**	**52,771,952**	**58,986,262**	**7,063,066**

The value of the asset backed securities will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The loans in the Company are recorded at fair value on initial recognition and subsequent measurement.

(b) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. Credit risk is generally higher for a non-exchange traded financial instrument because the counterparty for non-exchange traded financial instruments is not backed by an exchange-clearing house.

The Company's financial assets, other than the investment portfolio discussed below, exposed to credit risk, at the year end date were as follows:

	31 Mar 2017 GBP	31 Mar 2016 GBP
Cash and cash equivalents	24,931,855	5,345,668
Derivative financial assets		
- Options	808,105	3,166,897
- Forward foreign exchange contracts	78,895	-
Total	**25,818,855**	**8,512,565**

Bonds

The Company is subject to the risk that issuers of asset backed securities in which it invests may default on their obligations and that certain events may occur which have an immediate and significant adverse effect on the value of such instruments. There can be no assurance that an issuer of an instrument in which the Company invests will not default or that an event which has an immediate and significant adverse effect on the value of such instruments will not occur, and that the Company will not sustain a loss on the transaction as a result. The Company seeks to mitigate this risk by monitoring its portfolio of investments, reviewing the underlying credit quality of its counterparties, on a monthly basis.

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

14. Financial instruments and associated risks (continued)

(b) Credit risk (continued)

Bonds (continued)
The following table summarises the asset class distribution of the bond portfolio at 31 March 2017 and 31 March 2016:

Bond class*	31 Mar 2017 GBP million	31 Mar 2017 % of portfolio	31 Mar 2016 GBP million	31 Mar 2016 % of portfolio
A	30.4	61.0%	4.5m	11.4%
B	11.7	23.6%	17.1m	43.3%
C	2.6	5.2%	1.4m	3.4%
D	1.4	2.8%	5.4m	13.7%
E and Below	3.7	7.4%	11.1m	28.2%
Total	**49.8m**	**100.0%**	**39.5m**	**100.0%**

*Bond class relates to the order of pay in the security's waterfall with "A" being first.

Loans
The Company is subject to the risk that the underlying borrowers to the loans in which it invests, may default on their obligations and that certain events may occur which have an immediate and significant adverse effect on the value of such instruments. Any loan may become a defaulted obligation for a variety of reasons, including non-payment of principal or interest, as well as covenant violations by the borrower in respect of the underlying loan documents. In the event of any default on the Company's investment in a loan by the borrower, the Company will bear a risk of loss of principal and accrued interest on the loan, which could have a material adverse effect on the Company's investment.

There can be no assurance that a borrower will not default, that there will not be an issue with the underlying real estate security or that an event which has an immediate and significant adverse effect on the value of these loans will not occur, and that the Company will not sustain a loss on the transaction as a result. The Company seeks to mitigate this risk by performing due diligence and monitoring its portfolio of investments, reviewing the underlying credit quality of its borrowers, performance of the underlying asset, and loan covenants compliance against financial information received and the performance of the security, on a quarterly basis.

The Company has made further investments of approximately £48.5 million in various loan positions and sold out at a number of positions with an overall value of £55 million bringing the total principal invested in loans during the year to £108,524,533. The Company's total investment in loans at 31 March 2017, amounted to £109,272,179 which includes any interest accrued on loans at this date (31 March 2016; £113,242,257).

Derivative contracts
The Company also has credit exposure in relation to its derivative contracts. The Company was invested in derivative contracts with Goldman Sachs International at 31 March 2017 and at 31 March 2016 with the following credit rating according to Standard and Poor's and credit quality:

	31 Mar 2017 Rating	31 Mar 2016 Rating	31 Mar 2017 GBP	31 Mar 2016 GBP
Value of derivative contracts	A+	A	887,000	3,166,897

Transactions involving derivative financial instruments are usually with counterparties with whom the Company signed master netting agreements. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default. The impact of the master netting agreements is to reduce credit risk from the amounts shown as derivative financial assets on the Statement of Financial Position. The credit risk associated with derivative financial assets subject to a master netting arrangement is eliminated only to the extent that financial liabilities due to the same counterparty will be settled after the assets are realised.

The exposure to credit risk reduced by master netting arrangements may change significantly within a short period of time as a result of transactions subject to the arrangement. The corresponding assets and liabilities have not been offset on the Statement of Financial Position.

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

14. Financial instruments and associated risks (continued)

(b) Credit risk (continued)

Derivative contracts (continued)
The derivative assets and the derivative liabilities are subject to master netting agreements in place with the counterparties used by the Company. However, none of the derivative assets or the derivative liabilities are offset in the Statement of Financial Position.

Below are the derivative assets and liabilities by counterparty and details of the collateral received and pledged by Company as at 31 March 2017:

Derivative Type	Counterparty	Value of derivative assets GBP	Collateral received GBP	Collateral Pledged GBP	Net (if greater than zero) GBP
Options purchased	Goldman Sachs	808,105	(311,105)	-	497,000
Forward foreign exchange contracts	Goldman Sachs	78,895	(78,895)	-	-

Below are the derivative assets and liabilities by counterparty and details of the collateral received and pledged by Company as at 31 March 2016:

Derivative Type	Counterparty	Value of derivative assets GBP	Collateral received GBP	Collateral Pledged GBP	Net (if greater than zero) GBP
Options purchased	Goldman Sachs	3,166,897	-	543,039	3,709,936

Derivative Type	Counterparty	Value of derivative liabilities GBP	Collateral received GBP	Collateral Pledged GBP	Net (if greater than zero) GBP
Forward foreign currency exchange contracts	Goldman Sachs	(495,909)	-	495,909	-

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used. The Company monitors the credit rating and financial positions of the brokers used to further mitigate this risk.

Custody
The Company monitors its credit risk by monitoring the credit quality of State Street Custody Services (Guernsey) Limited, as reported by Standard and Poor's or Moody's.

If the credit quality or the financial position of State Street Custody Services (Guernsey) Limited were to deteriorate significantly the Investment Manager will seek to move the Company's assets to another bank. State Street Custody Services (Guernsey) Limited is a State Street Bank and Trust Company and the credit rating of State Street Corporation, the parent company of the Depositary, was A1 at the reporting date (2016: A2) according to Moody's.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's liquidity risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures detailed below. Where needed, the Investment Manager will liquidate positions to increase cash.

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

14. Financial instruments and associated risks (continued)

(c) Liquidity risk (continued)

The following table details the current and long term financial liabilities of the Company at the year end date:

As at 31 March 2017:	Less than 1 month GBP	1-3 months GBP	3 months to 1 year GBP	Greater than 1 year GBP
Financial liabilities excluding derivatives				
- Preference Shares	-	-	41,930,419	-
- Cash collateral due to broker	-	390,000	-	-
- Due to related parties	-	180,778	-	-
- Accrued expenses	-	2,519,261	-	-
	-	**3,090,039**	**41,930,419**	**-**

As at 31 March 2016:	Less than 1 month GBP	1-3 months GBP	3 months to 1 year GBP	Greater than 1 year GBP
Financial liabilities excluding derivatives				
- Preference Shares	-	-	-	41,840,528
- Due to related parties	-	172,100	-	-
- Accrued expenses	-	2,508,582	-	-
Derivatives settled gross				
- Forward foreign exchange contracts	-	495,909	-	-
	-	**3,176,591**	**-**	**41,840,528**

The market for subordinated asset-backed securities including real estate loans into which the Company is invested, is illiquid. In addition, investments that the Company purchases in privately negotiated (also called “over the counter” or OTC) transactions may not be registered under relevant securities laws or otherwise may not be freely tradable, resulting in restrictions on their transfer, sale, pledge or other disposition except in a transaction that is exempt from the registration requirements of, or is otherwise in accordance with, those laws. As a result of this illiquidity, the Company’s ability to vary its portfolio in a timely fashion and to receive a fair price in response to changes in economic and other conditions may be limited.

Furthermore, where the Company acquires investments for which there is not a readily available market, the Company’s ability to deal in any such investment or obtain reliable information about the value of such investment or risks to which such investment is exposed may be limited.

(d) Valuation of Financial Instruments

IFRS 13 requires disclosures surrounding the level in the fair value hierarchy in which fair value measurement inputs are categorised for assets and liabilities measured in the Statement of Financial Position. The determination of the fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 2, Significant Accounting Policies and in Note 3 Critical accounting judgements and key sources of uncertainty. For financial instruments that trade infrequently and have little price transparency, fair value is less objective.

The Company categorises investments using the following hierarchy as defined by IFRS 13:

- Level 1 – Quoted market prices in an active market for an identical instrument.
- Level 2 – Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant impact on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

14. Financial instruments and associated risks (continued)

(d) Valuation of Financial Instruments (continued)

The following table analyses within the fair value hierarchy the Company's financial assets and liabilities measured at fair value at the year end date:

As at 31 March 2017:	Level 1 GBP	Level 2 GBP	Level 3 GBP	Total GBP
Non-current assets				
Real Estate Debt Investments – bonds	-	49,774,418	-	49,774,418
Real Estate Debt Investments - loans	-	-	109,272,179	109,272,179
Current assets				
Options	-	808,105	-	808,105
Forward foreign exchange contracts	-	78,895	-	78,895
Cash and cash equivalents	24,931,855	-	-	24,931,855
Other assets at carrying value	-	4,405,924	-	4,405,924
Current liabilities				
Preference Shares	(41,930,419)	-	-	(41,930,419)
Cash collateral due to broker	(390,000)	-	-	(390,000)
Other liabilities at carrying value	-	(2,700,039)	-	(2,700,039)
	(17,388,564)	**52,367,303**	**109,272,179**	**144,250,918**

As at 31 March 2016:	Level 1 GBP	Level 2 GBP	Level 3 GBP	Total GBP
Non-current assets				
Real Estate Debt Investments – bonds	-	39,555,818	-	39,555,818
Real Estate Debt Investments - loans	-	-	113,242,257	113,242,257
Current assets				
Options	-	3,166,897	-	3,166,897
Cash and cash equivalents	5,345,668	-	-	5,345,668
Other assets at carrying value	-	2,527,759	-	2,527,759
Current liabilities				
Forward foreign exchange contracts	-	(495,909)	-	(495,909)
Other liabilities at carrying value	-	(2,680,682)	-	(2,680,682)
Non-current liabilities				
Preference Shares	(41,840,528)	-	-	(41,840,528)
	(36,494,860)	**42,073,883**	**113,242,257**	**118,821,280**

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

14. Financial instruments and associated risks (continued)

(d) Valuation of Financial Instruments (continued)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The fair value of options is their quoted market price at the reporting date. Broker marks are obtained for these positions. These are included in Level 2 of the fair value hierarchy.

The fair value of forward contracts is the difference between the contracts price and reported market prices of the underlying contract variables. These are included in Level 2 of the fair value hierarchy.

The fair values of investments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include investment-grade corporate bonds (Real Estate Debt Instruments) and over-the-counter derivatives.

As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

The Company has made loans into structures to gain exposure to real estate secured debt in the UK, Ireland, France and Germany. These loans are not traded in an active market and there are no independent quotes available for these loans. Such holdings are classified as Level 3 investments. The fair value of these loans are linked directly to the value of the real estate loans, the underlying structures invests in, which are determined based on modelled expected cash flows (drawdown principal and interest repayments, and maturity dates) with effective yields ranging from 8% to 26% (the unobservable input).

Fair value of the real estate loans is adjusted for changes in the credit quality of the borrower and underlying property collateral, and changes in the market rate on similar instruments. On origination of the loan, the Investment Manager performs due diligence on the borrower and related security/property. This includes obtaining a valuation of the underlying property (to assess loan-to-value of the investment). In most instances the terms of the loan require periodic re-valuation of the underlying property to check against loan-to-value covenants.

The majority of the the Company’s investments in loans are made though a Luxembourg based entity, Stornoway Finance SARL, via Loan Note instruments. As and when market information becomes available such as market prices from recognised financial data providers, the Company will assess the impact on the portfolio of loans which it holds and whether there are any transfers between levels in the fair value hierarchy. There were no transfers between Level 1 and Level 2 or between Level 2 and Level 3 during the year ended 31 March 2017 or during the year ended 31 March 2016.

At 31 March 2017, the Investment Manager is not aware of any significant movement in the market rates, any indications of impairment, significant credit events or significant negative performance of the underlying property structures, which might affect the fair value of the loans. Accordingly, the Investment Manager has determined that amortised cost is the best estimate of the fair value of these loans. A 1% decrease on the yield would increase the fair value by £2,128,158 (31 March 2016: decrease £2,877,902) and increase net profit by an equal amount; an equal change in the opposite direction would decrease the equity of the loan portfolio within the Company and decrease net profit by an equal amount.

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

14. Financial instruments and associated risks (continued)

(d) Valuation of Financial Instruments (continued)

Level 3 reconciliation
The following table shows a reconciliation of all movements in the fair value of financial instruments categorised within Level 3 between the beginning and the end of the financial year:

Financial assets designated at fair value through profit or loss	Level 3 31 Mar 2017 GBP	Level 3 31 Mar 2016 GBP
Opening Balance	113,242,257	87,092,274
Total gains and losses recognised in the statement of comprehensive income for the year	2,510,998	4,512,873
Purchases	48,502,706	48,808,632
Sales	(54,983,782)	(27,171,522)
Closing balance	109,272,179	113,242,257
Unrealised (loss)/gain on investments classified as Level 3 at year end	(874,807)	1,622,453

(e) Prepayment and re-investment risk

The Company's real estate loans have the facility for prepayment. The Company's exposure to real estate debt securities also has exposure to potential prepayment risk which may have an impact on the value of the Company's portfolio. Prepayment rates are influenced by changes in interest rates and a variety of economic, geographic and other factors beyond the Company's control and consequently cannot be predicted with certainty.

The level and timing of prepayments made by borrowers in respect of the mortgage loans that collateralise certain of the Company's investments may have an adverse impact on the income earned by the Company from those investments.

Early prepayments also give rise to increased re-investment risk. If the Company is unable to reinvest such cash in a new investment with an expected rate of return at least equal to that of the loan repaid, the Company's net income will be lower and, consequently, could have an adverse impact on the Company's ability to pay dividends.

The Investment Manager reviews the prepayment assumptions each quarter and will update as required. These assumptions are considered through a review of the underlying loan performance information of the securitisations.

15. Segmental Reporting

The Company has adopted IFRS 8 'Operating Segments'. The standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

Whilst the Investment Manager may make the investment decisions on a day to day basis regarding the allocation of funds to different investments, any changes to the investment strategy or major allocation decisions have to be approved by the Board, even though they may be proposed by the Investment Manager. The Board retains full responsibility as to the major allocation decisions made on an ongoing basis and is therefore considered the "Chief Operating Decision Maker" under the IFRS 8.

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

15. Segmental Reporting (continued)

The Company invests in Real Estate Credit Investments. The Real Estate Credit Investments may take different forms and are currently in the form of: (i) securitised tranches of secured real estate related debt securities, (the "Bonds"); and (ii) secured real estate loans, debentures or any other form of debt instrument (the "Loans"). The real estate debt strategy focuses on secured residential and commercial debt in the UK and Western Europe, seeking to exploit opportunities in publicly traded securities and real estate loans.

The Company has two reportable segments, being the Loan Portfolio and the Bond Portfolio.

For each of the segments, the Board of Directors reviews internal management reports prepared by the Investment Manager on a quarterly basis. The Investment Manager has managed each of the Loan Portfolio and the Bond portfolio separately, thus two reportable segments are displayed in the financial statements.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit/(loss), as included in the internal management reports that are reviewed by the Board of Directors. Segment profit/(loss) is used to measure performance as management believes that such information is the most relevant in evaluating the results.

Year ended 31 March 2017:	**Loan Portfolio GBP**	**Bond Portfolio GBP**	**Total GBP**
Reportable segment profit	15,220,945	4,645,609	19,866,554

Year ended 31 March 2016:	**Loan Portfolio GBP**	**Bond Portfolio GBP**	**Total GBP**
Reportable segment profit	20,218,439	2,202,705	22,421,144

As at 31 March 2017	**Loan Portfolio GBP**	**Bond Portfolio GBP**	**Total GBP**
Total Assets			189,271,376
Non-segmental assets			25,818,855
Reportable segment assets	112,904,996	50,547,525	163,452,521

As at 31 March 2016	**Loan Portfolio GBP**	**Bond Portfolio GBP**	**Total GBP**
Total Assets			163,838,399
Non-segmental assets			8,518,340
Reportable segment assets	115,348,791	39,971,268	155,320,059

Information regarding the basis of geographical segments is presented in the Investment Manager's Reports and is based on the countries of the underlying collateral.

All segment revenues are from external sources. There are no inter-segment transactions between the reportable segments during the year. Certain income and expenditure is not considered part of the performance of an individual segment i.e. Loan Portfolio and Bond Portfolio. This includes gains/losses on net foreign exchange and derivative instruments, expenses and interest on borrowings.

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

15. Segmental Reporting (continued)

The following table provides a reconciliation between net reportable income and operating profits.

	31 Mar 2017 GBP	31 Mar 2016 GBP
Reportable Segment profit	19,866,554	22,421,144
Net losses on options	(2,358,792)	(1,648,316)
Net losses on foreign exchange instruments and other foreign currency transactions	(1,757,777)	(5,631,460)
	15,749,985	15,141,368
Operating expenses	(3,226,188)	(3,138,734)
Finance costs	(3,444,325)	(3,464,988)
Net profit	**9,079,472**	**8,537,646**

Certain assets and liabilities are not considered to be attributable to a particular segment i.e. Loan Portfolio and Bond Portfolio, these include, other receivables and prepayments, cash and cash equivalents and derivative financial assets.

The following table provides a reconciliation between net total segment assets and total assets.

	31 Mar 2017 GBP	31 Mar 2016 GBP
Reportable segment assets	163,452,521	155,320,059
Cash and cash equivalents	24,931,855	5,345,668
Derivative financial assets	887,000	3,166,897
Other assets	-	5,775
	189,271,376	163,838,399

The following is a summary of the movements in the Company's investments analysed by the Loan and Bond Portfolios for the year ended 31 March 2017:

As at 31 March 2017:	Loan Portfolio GBP	Bond Portfolio GBP	Total GBP
Investments at fair value through profit or loss			
Opening fair value	113,242,257	39,555,818	152,798,075
Purchases	48,502,706	30,501,983	79,004,689
Sales proceeds	(54,983,782)	(18,276,094)	(73,259,876)
Realised gain on sales*	3,385,805	2,030,162	5,415,967
Net movement in unrealised gains on investments at fair value through the profit or loss*	(874,807)	(166,373)	(1,041,180)
Principal paydowns	-	(3,871,078)	(3,871,078)
Closing fair value	**109,272,179**	**49,774,418**	**159,046,597**

*Excludes effective interest adjustment of £415,188 relating to the bond portfolio for the year ended 31 March 2017, which has been included in the Interest income in the Statement of Comprehensive Income.

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

15. Segmental Reporting (continued)

The following is a summary of the movements in the Company's investments analysed by the Loan and Bond Portfolios for the year ended 31 March 2016:

As at 31 March 2016:	Loan Portfolio GBP	Bond Portfolio GBP	Total GBP
Investments at fair value through profit or loss			
Opening fair value	87,092,274	59,441,393	146,533,667
Purchases	54,316,571	2,447,124	56,763,695
Sales proceeds	(35,379,555)	(21,058,150)	(56,437,705)
Realised gain on sales*	2,700,094	4,017,205	6,717,299
Net movement in unrealised gains on investments at fair value through the profit or loss*	4,512,873	(4,490,536)	22,337
Principal paydowns	-	(801,218)	(801,218)
Closing fair value	**113,242,257**	**39,555,818**	**152,798,075**

*Excludes effective interest adjustment of £2,092,912 relating to the bond portfolio for the year ended 31 March 2016, which has been included in the Interest income in the Statement of Comprehensive Income.

16. Collateral

The Company received £390,000 (31 March 2016, cash collateral pledged: £1,038,948) as cash collateral for financial derivative instruments transactions undertaken with Goldman Sachs. This collateral also represents an obligation for Goldman Sachs to repay the Company on settlement of the financial derivative instrument and is not included in the Statement of Financial Position. As this amount is the minimum deemed by the brokers for collateral requirements the cash is restricted and is reported separately by means of this note only.

17. Material agreements and related party transactions

Loan investments
The Company has made, and will continue to make, certain loan investments through a Luxembourg based entity, Stornoway Finance SARL, via Loan Note Instruments. The entity has separate compartments for each loan deal, this effectively segregates each loan deal, as other funds also managed by the Investment Manager invest pari passu in these compartments.

Investment Manager
The Company is party to an Investment Management Agreement with the Investment Manager (a related party), dated 22 February 2017, pursuant to which the Company has appointed the Investment Manager to manage its assets on a day-to-day basis in accordance with its investment objectives and policies, subject to the overall supervision and direction of their respective Boards of Directors.

The Company pays the Investment Manager a Management Fee and a performance based Incentive Fee.

Management Fee
Under the terms of the Investment Management Agreement, the Investment Manager is entitled to receive from the Company an annual Management Fee of 1.25% on an adjusted net asset value, being the net asset value of the Ordinary Shares plus the number of Preference Shares in issue.

During the year ended 31 March 2017, the Management Fee totalled £2,038,574 (31 March 2016: £2,031,752), of which £180,778 (31 March 2016: £172,100) was outstanding at the year end.

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

17. Material agreements and related party transactions (continued)

Performance Fee
Under the terms of the Investment Management Agreement, the Investment Manager is entitled to receive from the Company a performance fee calculated as ((A-B) x 20% x C) where:

A = the Adjusted Performance Net Asset Value ("NAV"), as defined in the updated Prospectus.
B = the NAV per Ordinary Share as at the first Business Day of the Performance Period increased by a simple annual rate of return of 7% over the Performance Period or, if no Performance Fee was payable in the previous Performance Period, the NAV per Company Share on the first Business Day of the Performance Period immediately following the last Performance Period in which a Performance Fee was paid (the "Starting Date") increased by a simple annual rate of return of 7 per cent over the period since the Starting Date ("Hurdle Assets").
C = the time weighted average number of Company Shares in issue in the period since the Starting Date.

As the Performance Period (as defined in the Prospectus) is from 12 November 2013, to the end date of the quarter in which the first Continuation Resolution is passed, being the date of the annual general meeting in 2017, this has the effect of resetting the NAV on which the Hurdle Rate will be determined for the further period to 2021.

During the year ended 31 March 2017, the Performance Fee totalled £62,520 (31 March 2016: £195,358), of which £1,686,739 (31 March 2016: £1,627,132) was outstanding at the year end. The performance fee for the current period will be determined as at the quarter end following the first Continuation Resolution in September 2017 and paid shortly thereafter.

Administration Fee
Under the terms of the Administration Agreement, the Administrator is entitled to receive from the Company an annual administration fee of 0.125% of the net asset value of the Company up to £120,000,000 and 0.0375% of the net asset value of the Company greater than £120,000,000, plus additional fees in relation to transaction fees, statutory reporting, corporate secretarial fees and other out of pocket expenses. State Street Fund Services (Ireland) Limited, the Sub-Administrator, is paid by the Administrator. The above is subject to a minimum monthly fee of £10,000. During the year ended 31 March 2017 the administration fee totalled £148,285 (31 March 2016: £137,882), of which £23,799 (31 March 2016: £11,942) was outstanding at the year end.

Depositary Fee
Under the terms of the Depositary Agreement, the Depositary is entitled to receive from the Company an annual Depositary fee of 0.02% of the net asset value of the Company. During the year ended 31 March 2017 the Depositary fee totalled £55,086 (31 March 2016: £55,200). The Company owed £44,832 to the Depositary at the year end date (31 March 2016: £36,854).

The aggregate fair value of the options granted at the time of the Initial Public Offering using a Black-Scholes valuation model was €7,672,500 (reflecting a valuation of €3.41 per option). This amount has been treated as a cost of the Initial Public Offering.

18. Contingencies and commitments

The Company has committed up to GBP 125.9 million into loans through compartments of Stornoway Finance SARL. As at 31 March 2017, it had funded GBP 109.3 million of this commitment, or GBP 113.4 million taking accrued interest into account (31 March 2016: GBP 119.6 million commitment of which GBP 115.3 million was funded).

Notes to the Financial Statements (continued)
For the year ended 31 March 2017

19. Subsequent events

The Directors declared a dividend of £0.03 per Ordinary Share on 15 June 2017.

There have been no other significant events affecting the Company since the year end date that require amendment to or disclosure in the financial statements.

20. Foreign exchange rates applied to combined totals used in the preparation of the financial statements.

The following foreign exchange rates relative to the GBP were used as at the year end date:

Currency	31 Mar 2017	31 Mar 2016
EUR	1.169137	1.2613
US Dollar	1.250450	1.4373

21. Approval of the Financial Statements

The annual report and audited financial statements of the Company were approved by the Directors on 15 June 2017.

Appendix I – AIFM Remuneration Policy (Unaudited)

Annual Remuneration Disclosure For The Year To 31 March 2017

Cheyne Capital Management (UK) LLP (Cheyne), the Alternative Investment Fund Manager ("AIFM"), has implemented a Remuneration Policy ("the Policy") that is applicable to all remuneration matters within the firm, with a particular focus on those persons who have been identified as having a material impact on the risk profile of the AIF ("Code Staff"). This includes senior management, risk takers and control functions.

The Policy is in line with Cheyne's business strategy, objectives, values and long-term interests. As an AIFM, Cheyne's overall objective is to achieve attractive and controlled performance and capital growth for all funds under management, including the AIF and to develop strong long-term relationships with investors. Cheyne's income is dependent upon the funds for which it serves as manager or AIFM, and therefore the profit available for distribution under the Policy is dependent upon the performance of such funds including the AIF. As such, the fulfilment of Cheyne's objectives is interlinked with the best interests of Cheyne's clients, which in turn is in line with the Policy. The Policy promotes effective risk management and does not tolerate breaches of internal risk guidelines.

Cheyne has a Remuneration Committee (currently the COO and CFO) who report into the Incentivisation Committee (currently the CEO and President) that oversees the remuneration of individuals, including Code Staff, and approval of the allocation of profits available for discretionary division among members.

Cheyne was authorised as an AIFM on 22 July 2014. The quantitative disclosures required under Article 22 of AIFMD in accordance with the European Securities and Markets Authority ("ESMA") guidance for the Year Ended 31 March 2017, in respect of remuneration derived from the AIF are as follows:

Aggregate quantitative information on remuneration of Code Staff

Business Area	Number of Code Staff	AIFM Total Remuneration (all variable)	Code Staff relevant to the AIF	Remuneration derived from the AIF (all variable)	Deferred Remuneration derived from the AIF
Portfolio Management	19	£16,898,513	1	£496,219	£166,565
Senior Management	7	£2,386,408	7	£108,757	£570
Total	26	£19,284,921	8	£604,976	£167,135

Remuneration Code information is provided as required under the FCA Rules (BIPRU 11.5.18).

Appendix II – AIFM Leverage (Unaudited)

For the purposes of this disclosure, leverage is any method by which a fund's exposure is increased. A fund's exposure may be increased by using derivatives, by reinvesting cash borrowings, through positions within repurchase or reverse repurchase agreements, through securities lending or securities borrowing arrangements, or by any other means (such increase referred to herein as the "Incremental Exposure"). The AIFMD prescribes two methodologies for calculating overall exposure of a fund: the "gross methodology" and the "commitment methodology". These methodologies are briefly summarised below.

The commitment methodology takes account of the hedging and netting arrangements employed by a fund at any given time (purchased and sold derivative positions will be netted where both relate to the same underlying asset). This calculation of exposure includes all Incremental Exposure as well as a fund's own physical holdings; and cash. By contrast, the gross methodology does not take account of the netting or hedging arrangements employed by a Company. This calculation of exposure includes all Incremental Exposure as well as the Company's own physical holdings, Cash is excluded.

The AIFMD requires that each leverage ratio be expressed as the ratio between a fund's total exposure (including any Incremental Exposure) and its net asset value. Using the methodologies prescribed under the AIFMD and implementing legislation, the Company has set a maximum level of leverage, taking into account atypical and volatile market conditions. Leverage will not exceed the ratio of 5:1 using the commitment methodology and 5:1 using the gross methodology

The use of leverage, including borrowings, may increase the volatility of the Company's Net Asset Value per Ordinary Share and also amplify any loss in the value of the Company's assets.

While the use of borrowing should enhance the total return on the Shares where the return on the Company's underlying assets is rising and exceeds the cost of borrowing, it will have the opposite effect where the return on the Company's underlying assets is falling or rising at a lower rate than the cost of borrowing, reducing the total return on the Shares. As a result, the use of borrowings by the Company may increase the volatility of the Net Asset Value per Share.

Any reduction in the value of the Company's investments may lead to a correspondingly greater percentage reduction in its Net Asset Value (which is likely to adversely affect the price of a Share). Any reduction in the number of Shares in issue (for example, as a result of buy-backs or tender offers) will, in the absence of a corresponding reduction in borrowings, result in an increase in the Company's level of gearing.

To the extent that a fall in the value of the Company's investments causes gearing to rise to a level that is not consistent with the Company's gearing policy or borrowing limits, the Company may have to sell investments in order to reduce borrowing.

The Company will pay interest on its borrowings. As such, the Company is exposed to interest rate risk due to fluctuations in the prevailing market rates. The Company may employ hedging techniques designed to reduce the risk of adverse movements in interest rates. However, such strategies may also result in losses and overall poorer performance than if the Company had not entered into such hedging transactions.

The risks associated with the derivatives used by the Company and that may contribute to the leverage of the Company are set out earlier.

Leverage is limited to 500% of Net Asset Value of the Company under both the Gross and Commitment approaches. Up to 31 March 2017, the maximum leverage calculated has been 116.445%, for the Gross Approach and 129.518% for the Commitment Approach. In the year ended 31 March 2016, the average leverage amounted to 165.8% for the Gross Approach and 141.5% for the Commitment Approach.