# Chenavari Capital Solutions Limited

(a closed-ended investment company limited by shares incorporated under the laws of Guernsey with registered number 56977)

# Unaudited Interim Financial Statements

# For the period from 1 October 2018 to 31 March 2019

Potential investors are "qualified eligible persons" and "Non-United States Persons" within the meaning of the US Commodity Futures Trading Commission Regulation 4.7.

Chenavari Credit Partners LLP (the "Investment Manager") is registered as a commodity pool operator ("CPO") with the Commodity Futures Trading Commission (the "CFTC") and is a member of the National Futures Association ("NFA") in such capacity under the U.S. Commodity Exchange Act, as amended ("CEA"). With respect to Chenavari Capital Solutions Limited, the Investment Manager has claimed an exemption pursuant to CFTC Rule 4.7 for relief from certain disclosure, reporting and recordkeeping requirements applicable to a registered CPO. Such exemption provides that certain disclosures specified in section 4.22 (c) and (d) of the regulation are not in its interim report.

# Contents



**FORWARD-LOOKING STATEMENTS**

This interim report includes statements that are, or may be considered, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "plans", "expects", "targets", "aims", "intends", "may", "will", "can", "can achieve", "would" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this interim report, including in the Chairman's Statement. They include statements regarding the intentions, beliefs or expectations of the Company or the Investment Manager concerning, among other things, the investment objectives and investment policies, financing strategies, investment performance, results of operation, financial condition, liquidity prospects, dividend policy and targeted dividend levels of the Company, the development of its financing strategies and the development of the markets in which it, directly and through special purpose vehicles, will invest in and issue securities and other instruments. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The Company's actual investment performance, results of operations, financial condition, liquidity, dividend policy and dividend payments and the development of its financing strategies may differ materially from the impression created by the forward-looking statements contained in this document. In addition, even if the investment performance, results of operations, financial condition, liquidity, dividend policy and dividend payments of the Company and the development of its financing strategies are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that may cause differences include, but are not limited to: changes in economic conditions generally and in the structured finance and credit markets particularly; fluctuations in interest and currency exchange rates, as well as the degree of success of the Company's hedging strategies in relation to such changes and fluctuations; changes in the liquidity or volatility of the markets for the Company's investments; declines in the value or quality of the collateral supporting many of the Company's investments; legislative and regulatory changes and judicial interpretations; changes in taxation; the Company's continued ability to invest its cash in suitable investments on a timely basis; the availability and cost of capital for future investments; the availability of suitable financing; the continued provision of services by the Investment Manager and the Investment Manager's ability to attract and retain suitably qualified personnel; and competition within the markets relevant to the Company. These forward-looking statements speak only as at the date of this interim report. Subject to its legal and regulatory obligations, the Company expressly disclaims any obligations to update or revise any forward-looking statement (whether attributed to it or any other person) contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based. The Company qualifies all such forward-looking statements by these cautionary statements.

## Commodity Exchange Affirmation Statement

**Commodity Exchange Affirmation Statement Required by the Commodity Exchange Act, Regulation §4.22(h)**

I, Loic Fery, hereby affirm that, to the best of my knowledge and belief, the information contained in this Interim Report and Unaudited Financial Statements of Chenavari Capital Solutions Limited is accurate and complete.

**Loic Fery**

Chief Executive Officer and representative of the Managing Member of Chenavari Credit Partners LLP, Commodity Pool Operator of Chenavari Capital Solutions Limited.

5 June 2019

## Highlights for the period from 1 October 2018 to 31 March 2019

- During the period from 1 October 2018 to 31 March 2019 (the "Period"), the Company produced a net asset value ("NAV") total return of 1.83% (dividends reinvested).

- The NAV per Ordinary Share ("Share") increased from 89.37 pence at 30 September 2018 to 90.00 pence at 31 March 2019 net of distributions.

- The Company declared two dividends in respect of the period ended 31 March 2019: 0.5 pence per Share paid on 28 February 2019 for the period ended 31 December 2018 and 0.7 pence per Share paid on 31 May 2019 for the period ended 31 March 2019. On 30 November 2018 a dividend of 0.5 pence per Share was paid for the period ended 30 September 2018.

- The Company's mid-market share price at 31 March 2019 was 77.75 pence (31 March 2018: 81.25 pence), representing a discount to NAV of 13.61% .

- The profit of the Company for the Period was £0.9 million (31 March 2018: loss £0.8 million), or 1.60 pence per Share (31 March 2018: (0.76) pence per Share), taking into account recognition of the following significant items:

    - total net income of £1.4 million (31 March 2018: loss £0.03 million).
    - total operating expenses of £0.4 million (31 March 2018: £0.8 million).

- From 1 January 2017, the Company entered into a realisation period and started to return unencumbered cash balances to Shareholders. During the Period, a further return of capital was made in January 2019 in the form of a compulsory redemption of Shares equivalent, in aggregate, to a total distribution of 7.71% of the share capital as at IPO. It is expected that the portfolio will be substantially realised and approximately 90% of the projected cash proceeds will be returned to investors by mid 2021.

- During the Period, the Company repurchased and cancelled 10,050,209 Shares via one Share repurchase and at 31 March 2019 the Company had 52,614,517 Shares in issue.

# Corporate Summary
## For the Period from 1 October 2018 to 31 March 2019

**The Company**
Chenavari Capital Solutions Limited (the "Company") is a closed-ended Collective Investment Scheme registered pursuant to The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended (the "Law") and the Registered Collective Investment Scheme Rules 2008 issued by the Guernsey Financial Services Commission (the "Commission").

The IPO of the Company raised gross proceeds of £130.3 million and the Company's Shares were admitted to trading on the Specialist Fund Segment of the London Stock Exchange ("SFS") on 7 October 2013.

**Investment objective and policy**
The investment objective of the Company is to provide Shareholders with an attractive return, while limiting downside risk, through investment in bank capital solutions transactions primarily with UK and European banks.

**Investment Period and Realisation Period**
Following the extension of the investment period to 31 December 2016 approved by Shareholders at an EGM on 18 December 2015 (the "Investment Period"), the Company continued its ability to invest its cash balances in accordance with its investment policy, to the extent that such cash was not required for working capital purposes or the payment of dividends in accordance with the Company's dividend policy up to and including 31 December 2016, subject to the restrictions applicable to the extension period.

On 13 December 2016 the Company announced its intention to cease making any further investments with immediate effect and that, from 1 January 2017, it would commence a realisation period which would involve the return of unencumbered cash balances to Shareholders (the "Realisation Period"). One return of capital was made in January 2019 in the form of compulsory redemption of shares equivalent to a total distribution of 7.71% of the share capital as at the IPO. Although subject to change owing to market conditions and the performance of individual assets, it is the Board's current expectation that the portfolio will be substantially realised as a result of investments maturing in accordance with their terms. Assets may also be sold or otherwise disposed of as part of the realisation programme.

**Target returns and dividend policy**
Subject to compliance with the Companies (Guernsey) Law, 2008 (as amended) and the satisfaction of the solvency test, the Company intends to distribute all its income received from investments, net of expenses, by way of dividends on a quarterly basis with dividends declared in October, January, April and July each year and paid in November, February, May and August.

From 1 January 2017, returns to Shareholders have been predominantly from the return of unencumbered cash balances described above and as dividend income.

**The Investment Manager and Investment Adviser**
The Company's Investment Manager is Chenavari Investment Managers (Luxembourg) S.àRL, a non-cellular company incorporated in Luxembourg under registered number B 0143992, and is licenced and regulated by the Commission de Surveillance du Secteur Financier ("CSSF") in Luxembourg to undertake the activities of an Alternative Investment Fund Manager ("AIFM"). The Investment Manager is a wholly owned entity within the Chenavari Group.

The Investment Manager has appointed Chenavari Credit Partners LLP (the "Investment Adviser"), which is also a member of the Chenavari Group, to provide investment advisory services to the Investment Manager. The Investment Adviser is a limited liability partnership incorporated in England and Wales under registered number OC337434 and is regulated and authorised in the UK by the FCA under registration number 484392 and in the United States by the SEC under Investment Adviser registration number 801/72662.

**Asset values**
At 31 March 2019, the Company's NAV was £47.4 million (31 March 2018: £92.8 million), with the NAV per Share amounting to 90.00 pence (31 March 2018: 88.89 pence). The Company publishes its NAV on a monthly basis. The NAV is calculated as the Company's assets at fair value less liabilities, measured in accordance with International Financial Reporting Standards ("IFRS").

## Corporate Summary (continued)
### For the Period (continued)

**Website**
The Company's website address is www.chenavaricapitalsolutions.com

**Listing Information**
The Company's Shares are admitted to trading on the SFS.

The International Securities Identification Number ("ISIN") of the Shares is GG00BHR3GH97 and the SEDOL is BHR3GH9.

The closing price of the Shares quoted on the SFS at 31 March 2019 was 77.75 pence per Share.

The average closing price of the Shares over the Period to 31 March 2019 was 77.88 pence per Share.

# General Information

**Directors**
Rob King (Non-executive Director and Chairman)
Iain Stokes (Non-executive Director)
René Mouchotte (Non-executive Director)

**Investment Manager and AIFM**
Chenavari Investment Managers (Luxembourg) S.àRL.
2, Boulevard de la Foire
L-1528
Luxembourg

**Administrator and Company Secretary to 29 April 2019**
Estera Administration (Guernsey) Limited
Old Bank Chambers
La Grande Rue
St Martin's
Guernsey
GY4 6RT

**Administrator and Company Secretary with effect from 29 April 2019**
Estera Administration (Guernsey) Limited
P.O. Box 286
Floor 2
Trafalgar Court
Les Banques
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Guernsey
GY1 4LY

**Sub-Administrator**
U.S. Bank Global Fund Services (Ireland) Limited
24-26 City Quay
Dublin 2
Ireland

**Custodian and Principal Bankers and AIFMD Article 36 Custodian**
J.P. Morgan Chase Bank NA,
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**Auditor**
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**Registrar**
Link Asset Services
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Guernsey
GY2 4LH

**Registered Office to 29 April 2019**
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GY4 6RT

**Registered Office with effect from 29 April 2019**
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Trafalgar Court
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GY1 4LY

**Investment Adviser**
Chenavari Credit Partners LLP
80 Victoria Street
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SW1E 5JL

**Corporate Broker**
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1 Tudor Street
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EC4Y 0AH

**Solicitors to the Company (as to United States law)**
Reed Smith LLP
The Broadgate Tower
20 Primrose Street
London
EC2A 2RS

**Solicitors to the Company (as to English law)**
Gowling WLG (UK) LLP (formerly Wragge
Lawrence Graham & Co LLP)
4 More London Riverside
London
SE1 2AU

**Advocates to the Company (as to Guernsey law)**
Mourant Ozannes
1 Le Marchant Street
St Peter Port
Guernsey
GY1 4HP

**Depository and AIFMD Article 36 Custodian**
U.S. Bank Global Fund Services (Ireland) Limited
24-26 City Quay
Dublin 2
Ireland

Elavon Financial Services Limited
Block E
Cherrywood Business Park
Loughlinstown
Dublin 18
Ireland

## Chairman's Statement

**Introduction**
On behalf of the Board, I am pleased to present the Company's interim report and unaudited financial statements for the period ended 31 March 2019.

**Realisation of Investment Portfolio**
Following the last return of capital in January 2019 it has been a relatively quiet time for realising the underlying investments, although we are expecting additional returns of capital in late Q3 2019 and further returns in the latter part of 2019. During the Period, we returned £26.0 m by way of capital and dividend payments against an estimated amount of £13.0m and since the commencement of the realisation process until 31 March 2019, we have returned £90.9m by way of capital returns and dividends. As at 31 March 2019, 77,685,483 Shares (including Share Buy Backs) have been cancelled representing 59.6% of the Shares in issue at the original IPO.

The table below sets out the updated position of capital and dividend payments made since the commencement of the realisation process.

| Calendar year/ quarter | Estimated cash flows to Shareholders, £m | Actual cash flow to Shareholders, £m | | |
|---|---|---|---|---|
| | | Compulsory redemption, £m | Dividend, £m | Total, £m |
| 2017 | 27.8 | 24 | 8.2 | 32.2 |
| 2018 | 31.4 | 46 | 3.4 | 49.4 |
| Q1 2019 | 6.1 | 9 | 0.3 | 9.3 |
| Q2 2019 * | 8.1 | 6.3 | 0.3 | 6.6 |
| | | | | |
| **Total** | 59.2 | 85.3 | 12.2 | 97.5 |

*Figures for Q2 2019 were announced and paid after the end of the Period.

The details of the portfolio and its performance are set out in the Investment Manager's Report on page 10.

Although it has been a quiet first quarter of 2019, we still anticipate that the Company will return a further £22.3 million in 2019 on a base case scenario as detailed below. It should be noted that these figures are for indication purposes only and owing to changing market conditions, we may not be able to meet these targets.

| Period | Revised estimated cash flow to Shareholders |
|---|---|
| • Q2 2019 | £6.3m |
| • Q3 2019 | £15.0m |
| • Q4 2019 | £1.0m |

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## Chairman's Statement (continued)

**Performance**
The profit for the Period was £925,971, equivalent to earnings per Share of 1.60 pence (loss in period from 1 October 2017 to 31 March 2018 (£828,248), equivalent to earnings per Share of (0.76) pence).

During the Period, the Company's NAV total return was 1.83% (dividends reinvested) and was 28.08% since inception (net of issue costs and dividends reinvested). The NAV per Share increased from 89.37 pence at 30 September 2018 to 90.00 pence at 31 March 2019.

During the Period we have seen the discount levels widen with the discount to NAV at the period end being 13.61%, and the share price total return for the period being 0.32%, dividends reinvested.

**Dividends**
During the Period two dividends were declared and paid amounting to 1.00 pence per Share (0.50 pence per Share was paid on 30 November 2018 and 0.50 pence per Share was paid on 28 February 2019. Following the period end, a further dividend of 0.70 pence per Share was declared on 9 May 2019 and paid on 31 May 2019.

**Share Repurchases**
During the Period the Company did not buy back any Shares and there were no Shares held in Treasury. The Company continues to return capital to investors via the realisation of Shares.

The Company has obtained Shareholder approval to buy back up to 14.99% of the Shares in issue as at the date of the last AGM being 28 March 2019. The Directors have the discretion to use share buy backs as part of the return of capital process where they feel it is appropriate and in the overall interest of Shareholders.

**Total Expense Ratio**
The total expense ratio as at 31 March 2019 was 1.60%.

**Outlook**
Brexit continues to be an on-going battle of attrition between political parties, which does not help provide any clarity on the matter. During this continued period of uncertainty, the Company's investments have continued to perform in line with expectations.

The remaining underlying investments continue to be realised in line with the expectations of the Board and Investment Manager and I am pleased to advise that the Company announced its seventh capital payment of £6.3m, which will be paid to Shareholders for value 16 July 2019.

Once we have more visability on the realisation of the remaining investments, we will be in a position to make any necessary recommendations to Shareholders on the future of the Company.

Rob King
Non-executive Chairman

5 June 2019

## Investment Manager's Report

During the Period the Company's NAV total return (dividends reinvested) was 1.83%.

The month-on-month total return since inception, dividends reinvested, was as follows:

| *Year* | YTD | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2013** | **0.74%** | | | | | | | | | | -0.04% | -0.19% | 0.98% |
| **2014** | **5.76%** | 0.68% | 0.56% | 0.95% | 0.67% | 0.67% | -0.19% | -0.58% | 1.37% | -0.93% | 1.52% | 0.28% | 0.64% |
| **2015** | **3.08%** | -0.10% | 1.10% | -1.01% | 0.70% | 0.98% | 2.25% | 0.19% | 0.20% | 0.70% | 0.83% | -0.01% | -2.72% |
| **2016** | **5.37%** | -1.42% | -0.19% | 2.41% | 0.37% | 1.81% | 1.09% | 0.42% | -0.18% | 1.85% | 0.15% | 0.11% | -1.10% |
| **2017** | **7.16%** | -0.41% | 1.22% | 2.38% | 0.45% | 1.37% | 0.83% | 0.35% | -0.04% | 0.30% | 0.05% | 0.29% | 0.18% |
| **2018** | **2.39%** | -1.17% | -0.69% | 0.22% | 0.16% | 1.43% | 0.72% | -0.08% | 0.09% | 0.74% | 0.28% | 0.49% | 0.19% |
| **2019** | **0.86%** | 0.34% | 0.40% | 0.12% | | | | | | | | | |

Since inception, the Company paid the following dividends:

| Period ending | Dividend (pence per Share) |
|---|---|
| 30 September 2014 (2 dividends) | 5.25 |
| 30 September 2015 (4 dividends) | 7.5 |
| 30 September 2016 (4 dividends) | 7.5 |
| 30 September 2017 (4 dividends) | 6.75 |
| 30 September 2018 (4 dividends) | 4.0 |
| 31 March 2019 (2 dividends) | 1.0 |

From 1 January 2017, the Company entered into a Realisation Period and started to return unencumbered cash balances to Shareholders in the form of share cancellation.

| Return of capital (share cancellation) | Cash returned to Shareholders | Shares redeemed as proportion of the share capital at IPO (1) |
|---|---|---|
| 31 March 2017 | £4,999,957 | 4.2% |
| 1 September 2017 | £6,999,959 | 5.7% |
| 1 December 2017 | £11,999,954 | 9.9% |
| 1 May 2018 | £19,999,955 | 17.3% |
| 1 September 2018 | £16,999,960 | 14.8% |
| 2 January 2019 | £8,999,962 | 7.71% |

(1) There were 130,300,000 shares in issue at IPO.

## Investment Manager's Report (continued)

**Investment Review**

As of 31 March 2019, the Company was 83.37% invested.

The sector allocation as at 31 March 2019 reflected a significant representation of corporate and SME loans.

| **Asset class breakdown** | **Percentage of NAV 31 March 2018** | **Percentage of NAV 30 September 2018** | **Percentage of NAV 31 March 2019** |
|---|---|---|---|
| SME loans | 48.55% | 57.39% | 54.10% |
| Corporate loans | 21.84% | 20.42% | 24.25% |
| Mortgages | 3.00% | 4.39% | 5.02% |
| Term Deposit | - | - | 0.12% |
| Cash, collateral & hedges | 26.61% | 17.80% | 16.51% |
| **Total** | **100%** | **100%** | **100%** |

Geographically the portfolio diversification changed as the consequence of amortizing positions.

| **Geographic breakdown** | **Percentage of NAV 31 March 2018** | **Percentage of NAV 30 September 2018** | **Percentage of NAV 31 March 2019** |
|---|---|---|---|
| U.K. | 13.57% | 20.54% | 24.51% |
| Spain | 16.75% | 26.02% | 29.17% |
| Portugal | 6.75% | 9.35% | - |
| Germany | 9.82% | 0.27% | 0.33% |
| Italy | 11.80% | 18.99% | 21.31% |
| USA | 3.25% | 0.00% | - |
| Switzerland | 5.32% | 6.98% | 8.10% |
| Netherlands | 1.62% | 0.02% | 0.03% |
| France | 1.14% | 0.00% | 0.00% |
| Other countries | 3.37% | 0.03% | 0.04% |
| Cash, accruals, collateral, FX & hedges | 26.61% | 17.80% | 16.51% |
| **Total** | **100%** | **100%** | **100%** |

As at 31 March 2019, the following positions were held:

| **Sector** | **Underlying assets Country** | **Fair value (GBP)** | **Percentage of NAV** |
|---|---|---|---|
| SME loan | Spain | 11,503,701 | 24.29% |
| Corporate loan | U.K. | 11,484,491 | 24.25% |
| SME loan | Italy | 6,759,913 | 14.28% |
| SME loan | Germany/Switzerland | 3,835,308 | 8.10% |
| SME loan | Italy | 3,328,382 | 7.03% |
| Mortgages | Spain | 2,309,255 | 4.88% |
| SME loan | Multi | 187,317 | 0.40% |
| Mortgages | U.K. | 66,907 | 0.14% |
| Term Deposit | U.K. | 54,808 | 0.12% |

## Investment Portfolio Outlook

During the Realisation Period, the Company continues to manage the portfolio and to assess the opportunistic early sale of the more liquid assets to maximise the return on capital to shareholders.

As a significant part of the Company's assets are denominated in Euros, it will also continue to manage the foreign exchange exposure of the portfolio.

## Investment Manager's Report (continued)

The Investment Adviser maintains a Base Case for each investment in the portfolio, depending on its characteristics and underlying collateral. The Base Cases are derived from a combination of: initial cases derived at the time of investment from analysis of the transaction's structure and the underlying portfolio data, regular tracking of the performance of the transaction's underlying collateral pool and market implied factors such as credit spreads or the performance of other similar deals.

Shareholders should note that, due to the diversification of the portfolio's holdings, it is unlikely that all investments would perform in line with the Base Case.

Under the Base Case, it is estimated that investment cash flows during 2019 will be as detailed below, but there can be no assurances to this effect.

- Q2 2019 £6.3m
- Q3 2019 £15.0m
- Q4 2019 £1.0m

Indicative internal rates of portfolio return are dependent on the underlying Base Case asset assumptions that are made by the Investment Adviser. These include, but are not limited to, predictions of default, prepayment, recovery, amortisation, interest rates, asset spread, portfolio replenishment and issuer optional redemptions. The figures are calculated on invested capital of the Company and do not reflect indications of NAV total return. The figures are based on long-term performance projections of the investment strategy and market conditions at the time of modelling and are therefore subject to change. There is no guarantee that any indicative rates of returns can be achieved. Investors should not place any reliance on such target return in deciding whether to invest in the Company. Stress Tests present a set of hypothetical scenarios that assume changes for one or more market variable in order to assess the effect on the portfolio. The results shown represent estimated gross performance of the portfolio under the market conditions stated and do not reflect any management or performance fees or other expenses. The Investment Adviser has made assumptions that it deems reasonable and used the best information available to calculate the rate of return case estimates. If a different set of assumptions were used in these calculations, there could be a material difference in the calculated estimates. Please refer to the prospectus dated 23 September 2013 for risk factors (a copy of which is on the website of the Company at www.chenavaricapitalsolutions.com). Hypothetical performance results have many inherent limitations and no representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular investment programme.

Chenavari Investment Managers (Luxembourg) S.àRL.
Investment Manager

5 June 2019

## Statement of Principal Risks and Uncertainties

**Summary**

An investment in the Shares is only suitable for institutional investors and professionally advised private investors who understand and are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses (which may equal the whole amount invested) that may result from such an investment. Furthermore, an investment in the Shares should constitute part of a diversified investment portfolio. It should be remembered that the price of securities and the income from them can go down as well as up.

The risks set out below are those which are considered to be the material risks relating to an investment in the Shares but are not the only risks relating to the Shares or the Company. Additional risks and uncertainties of which the Company is presently unaware or that the Company currently believes are immaterial may also adversely affect its business, financial condition, results of operations or the value of the Shares.

The Board have 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. The Board 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.

Since the Company commenced its Realisation Period on 1 January 2017, over 50% of its investments have either been sold or matured, with proceeds distributed to Shareholders via dividends or capital redemptions. Accordingly, at the Period end the Company's remaining investments have become more concentrated with the 5 largest investments representing 77.95% of the Company's assets.

| **Risk** | **Explanation/Mitigant** |
|---|---|
| Collateral risk (default, recovery, prepayment) | Investment Instruments issued by Bank counterparties and purchased by the Company are linked to the credit performance of the Collateral. This means that defaults or credit losses in the Collateral may adversely impact the performance of the Company, the NAV and the value of the Shares.<br><br>The Investment Adviser undertakes a fundamental credit review entailing the selection and optimisation of the Collateral underlying a Bank Capital Solutions Transaction and develops quantitative scenarios using default rates, loss severities and prepayments applied to sub-pools within the Collateral. Alongside the fundamental credit analysis, the structural features of the transaction are also assessed. This includes a review of the payment waterfall, the subordination of the proposed Investment Instrument, the extent of the reserve fund, the amortisation profile and extension risk.<br><br>Where it is considered desirable, the Company may enter into hedging transactions designed to protect against or mitigate the consequences of single reference obligations defaulting and/or more generalised credit events.<br><br>Whilst higher investment concentration has exacerbated collateral risk, the Company's fair value valuation policy acts as a mitigant. |
| Timing of Asset Realisations | Whilst the timing risk of the majority of asset realisations is considered moderate to low, an investment's IRR remains uncertain until it is realised.<br><br>One investment strategy, representing 24.3% of the Company's total assets at 31 March 2019, is deemed to have a higher timing risk, although the investment is expected to be materially realised over the next 18 months. |

## Statement of Principal Risks and Uncertainties (continued)

| **Risk (continued)** | **Explanation/Mitigant (continued)** |
|---|---|
| Brexit Risk | Risks of a disorderly exit of the United Kingdom from the European Union exist, either directly as a result of significant trade and operational disruption or indirectly as a result of a general market downturn.<br><br>In this scenario, it is anticipated that the majority of Company's investments would be affected indirectly, since they are continental assets with a low market beta risk. There is one investment at 31 March 2019 representing 24% of the Company's assets, which carries a more direct exposure since the investment is a regulatory capital transaction with a UK bank on a portfolio of loans to predominantly FTSE 250 companies. |
| Bank counterparty risk | Bank capital solutions transactions may expose the Company to the Bank Counterparty's credit risk. The terms of such transactions will generally include credit rating triggers to ensure that the transaction mitigates counterparty risk.<br><br>The Company may enter into credit hedging arrangements to ensure that the net exposure to any Bank Counterparty is no more than 20% of the NAV as at the date that any relevant credit hedging contract matures or is adjusted or rolled over.<br><br>This risk is monitored on a daily basis and OTC derivatives may be used to keep this risk within limits. |
| Valuation and classification of financial assets at fair value through profit or loss risk | Investments are valued in accordance with the Company's Valuation Policy, which is compiled with reference to key principles comprising independence, documentation, transparency, consistency and relevance. The Valuation Policy documents the pricing process and timeline, with particular reference to difficult to value securities, and sets out escalation procedures.<br><br>The Board has established a committee to review the valuation of illiquid Investment Instruments, particularly where a valuation is provided by a single counterparty or where the Investment Adviser's risk officer recommends a materially different valuation than that provided by a counterparty. The Company has also engaged Duff & Phelps, Ltd ("Duff & Phelps"), as a valuation advisor to provide certain limited procedures on some Transactions' valuation which the Investment Adviser identified and requested Duff & Phelps to perform. For the avoidance of doubt, notwithstanding the Company's engagement with Duff & Phelps, the Valuation Committee of the Company remains ultimately responsible for the determination of the Fair Value of each Transaction, but may consider Duff & Phelps' input in making such determinations.<br><br>The valuation policy of assets would comply with IFRS 9 Financial Instruments and the Company's investments, although the sensitivity to an investment adjustment to fair value is increased due to investment concentration. |

## Statement of Principal Risks and Uncertainties (continued)

| **Risk (continued)** | **Explanation/Mitigant (continued)** |
|---|---|
| Investment Manager and Investment Adviser risks | The Company is dependent on the expertise of the Investment Manager, the Investment Adviser and their respective key personnel to evaluate investment opportunities and to implement the Company's investment objective and investment policy.<br><br>The Board has instructed the Investment Manager to conduct the Company's investment related activities in compliance with the applicable law, the Company's investment objective, investment policy and guidelines and the Company's contractual obligations.<br><br>The Management Engagement Committee carried out its annual review of the performance and capabilities of the Investment Manager on 16 November 2018 and has confirmed the continued appointment of the Investment Manager is deemed to be in the interest of Shareholders.<br><br>There can be no assurance that the Investment Manager's past performance will be any guide to future performance or results. |
| Currency risk | The type of securities in which the Company invests, to the extent not denominated, may be sensitive to changes in foreign exchange rates.<br><br>The Company may implement hedging strategies designed to protect investments from movements in exchange rates. Such strategies may include (but are not limited to) options, forwards, and futures. |
| Tax, legal and regulatory risks | Changes in the Company's tax status or tax treatment may adversely affect the Company, and if the Company becomes subject to the UK offshore fund rules there may be adverse tax consequences for certain UK resident Shareholders.<br><br>The Company expects that US taxpayers generally would be subject to adverse US tax consequences in respect of their investment in the Shares under US tax rules applicable to passive foreign investment companies ("PFIC"). Accordingly, the acquisition of Shares may not be a suitable investment for U.S. Holders (other than U.S. Holders that are tax-exempt organisations). U.S. Holders should consult their tax advisers regarding the application of the PFIC rules to an investment in Shares.<br><br>On 23 November 2015 Guernsey issued regulations to implement the Common Reporting Standard ("CRS") under Guernsey's domestic law. The regulations follow on from the commitment made on 29 October 2014 by Guernsey, along with the other Crown Dependencies and a number of other jurisdictions, to start exchanging information under the CRS in respect of accounts maintained by financial institutions in Guernsey by 2017 at the earliest. The regulations will take effect from 1 December 2015 and will require Reporting Financial Institutions in Guernsey to apply from 1 January 2016 prescribed due diligence procedures to all financial accounts maintained by them in order to identify and report, where appropriate, certain information to Guernsey's income tax office ("ITO"), which in turn will transmit that information the following year to the tax offices of relevant jurisdictions. The requirements of CRS are closely aligned to requirements under the FATCA Model 1 Intergovernmental agreement.<br><br>Changes in the Basel III standards or other changes in the regulation of bank capital adequacy may make bank capital solutions transactions unattractive for Bank Counterparties or reduce the rates of return available, both of which may adversely affect the Company.<br><br>The AIFMD seeks to regulate AIFMs established in the EU and prohibits such managers from managing any AIF or marketing shares in such funds to investors in the EU unless the AIFM has been authorised. |

## Statement of Principal Risks and Uncertainties (continued)

| **Risk (continued)** | **Explanation/Mitigant (continued)** |
|---|---|
| Tax, legal and regulatory risks (continued) | The Company, as a Guernsey-registered closed ended fund which is not currently actively marketed in the EEA, is not directly impacted by the AIFMD (save for certain consequential effects arising from its appointment of an EU domiciled AIFM, such as the requirement to appoint a depositary). The Board acknowledges that if active marketing is undertaken in the EEA the private placement regime requirements for the relevant jurisdiction would need to be met.<br><br>The Board and its advisers have also implemented policies and risk based controls to monitor both the investment and operational risks that impact the Company to facilitate compliance with AIFMD. The Board is cognisant of the European Union's ongoing discussions regarding, inter alia, passporting arrangements for AIFs and ESMA's recommendations as regards to so called "third countries", i.e. non-EU member states. The Board and its advisers monitor developments to ensure continued compliance and to ensure that any potential opportunities are not missed.<br><br>The Administrator, Sub-Administrator, Broker and Investment Manager provide regular updates to the Board on compliance with the prospectus and changes in regulation. |
| Operational risks | The Company is exposed to the risk arising from any failures of systems and controls in the operations of the Investment Manager, AIFM, Administrator, the Sub-Administrator and the Custodian. The Board and its Audit Committee regularly review reports from its Outsourced Service Providers on their internal controls. |

## Statement of Directors' Responsibilities

We confirm to the best of our knowledge that:

- these Condensed Unaudited Interim Financial Statements have been prepared in accordance with International Accounting Standard 34.

- the interim management report (comprising the Chairman's Statement and Investment Manager's Report) meets the requirements of an interim management report, and includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the period from 1 October 2018 to 31 March 2019 and their impact on the Unaudited Interim Financial Statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place during the period from 1 October 2018 to 31 March 2019 and that have materially affected the financial position or performance of the entity during that period.

This responsibility statement was approved by the Board of Directors on 5 June 2019 and is signed on its behalf by:

Non-Executive Director:

Date: 5 June 2019

Non-Executive Director:

Date: 5 June 2019

**Condensed Unaudited Statement of Comprehensive Income**
**For the period ended 31 March 2019**

| | Note | 1 October 2018 to 31 March 2019 £ | 1 October 2017 to 31 March 2018 £ |
|---|---|---|---|
| **Income** | | | |
| Interest income | | 7,750 | 6,612 |
| Net gain/(loss) on financial assets and financial liabilities held at fair value through profit or loss | 11 | 1,371,927 | (41,496) |
| **Total net income/(loss)** | | **1,379,677** | **(34,884)** |
| | | | |
| **Expenses** | | | |
| Management fee | 4 | 258,466 | 496,718 |
| Administration fee | 5(b) | 13,750 | 26,000 |
| Sub-administration fee | 5(c) | 15,653 | 31,724 |
| Custodian fees | 5(d) | 10,750 | 15,750 |
| Corporate broking fee | 5(a) | 15,000 | 37,500 |
| Directors' fees | | 27,917 | 57,500 |
| Legal fee | | 2,500 | 10,000 |
| Audit fee | 14 | 15,667 | 41,000 |
| Other operating expenses | | 66,874 | 54,450 |
| **Total operating expenses** | | **426,577** | **770,642** |
| | | | |
| **Financing costs** | | | |
| Interest expense | | 27,129 | 22,722 |
| | | | |
| **Profit/(loss) for the period** | | **925,971** | **(828,248)** |
| | | | |
| **Earnings per Share** | | | |
| Basic and diluted | 8 | 1.60p | (0.76)p |

All amounts relate to continuing operations. There were no items recognised as other comprehensive income that have not already been recognised in loss/ profit for the period. As such, this represents total comprehensive income for the period.

**All items in the above statement derive from continuing operations.**

**The condensed schedule of investments and the notes to the financial statements are an integral part of the financial statements.**

**Condensed Unaudited Statement of Financial Position**
**As at 31 March 2019**

| | Note | 30 March 2019 £ | 30 September 2018 £ |
|---|---|---|---|
| **Assets** | | | |
| Financial assets at fair value through profit or loss | 10 | 40,284,121 | 46,063,326 |
| Due from broker | 12 | 703,966 | 2,142,484 |
| Other receivables and prepayments | 13 | 8,267 | 6,004 |
| Cash and cash equivalents | 6,2 | 6,600,382 | 8,017,025 |
| **Total assets** | | **47,596,736** | **56,228,839** |
| | | | |
| **Equity** | | | |
| Share capital and share premium | 15 | 57,591,784 | 66,591,746 |
| Retained deficit | | (10,240,879) | (10,590,454) |
| **Total equity** | | **47,350,905** | **56,001,292** |
| | | | |
| **Current liabilities** | | | |
| Financial liabilities at fair value through profit or loss | 2,10 | 126,783 | 16,538 |
| Accrued expenses | 14 | 119,048 | 211,009 |
| **Total liabilities** | | **245,831** | **227,547** |
| | | | |
| **Total equity and liabilities** | | **47,596,736** | **56,228,839** |
| | | | |
| **Shares outstanding** | 15 | 52,614,517 | 62,664,726 |
| **NAV per Share** | 9 | 90.00p | 89.37p |

The financial statements on pages 18 to 21 were approved by the Board of Directors and authorised for issue on 5 June 2019.

Non-Executive Director:

Date: 5 June 2019

Non-Executive Director:

Date: 5 June 2019

**The condensed schedule of investments and the notes to the financial statements are an integral part of the financial statements.**

**Condensed Unaudited Statement of Changes in Equity**
**For the period ended 31 March 2019**

| | Note | Retained earnings £ | Share capital and share premium £ | Total £ |
|---|---|---|---|---|
| **At 30 September 2018** | | **(10,590,454)** | **66,591,746** | **56,001,292** |
| Gain for the period | | 925,971 | - | 925,971 |
| Shares redeemed during the period | 15 | - | (8,999,962) | (8,999,962) |
| Distributions to equity shareholders | 17 | (576,396) | - | (576,396) |
| **At 31 March 2019** | | **(10,240,879)** | **57,591,784** | **47,350,905** |

**For the period ended 31 March 2018**

| | Note | Retained earnings £ | Share capital and share premium £ | Total £ |
|---|---|---|---|---|
| **At 30 September 2017** | | **(6,649,631)** | **115,591,616** | **108,941,985** |
| Loss for the period | | (828,248) | - | (828,248) |
| Shares redeemed during the period | 15 | - | (11,999,954) | (11,999,954) |
| Distributions to equity shareholders | 17 | (3,356,259) | - | (3,356,259) |
| **At 31 March 2018** | | **(10,834,138)** | **103,591,662** | **92,757,524** |

**The condensed schedule of investments and the notes to the financial statements are an integral part of the financial statements.**

**Condensed Unaudited Statement of Cash Flows**
**For the period ended 31 March 2019**

| | 1 October 2018 to 31 March 2019 | 1 October 2017 to 31 March 2018 |
|---|---|---|
| | £ | £ |
| **Cash flows from operating activities** | | |
| Profit/(loss) for the period | 925,971 | (828,248) |
| *Adjustments for non-cash items and working capital:* | | |
| Purchase of investments | (54,808) | (12,829,487) |
| Disposal and pay downs of investments | 4,516,258 | 25,888,605 |
| Unrealised net loss on financial assets and derivatives at fair value | 1,428,000 | 10,460,715 |
| Decrease/(increase) in amounts due from brokers | 1,438,518 | (1,484,548) |
| (Increase) in other receivables and prepayments | (2,263) | (23,627) |
| Decrease in amounts due to brokers | - | (28,921) |
| Decrease in accrued expenses | (91,961) | (109,144) |
| **Net cash inflow from operating activities** | **8,159,715** | **21,045,345** |
| **Cash flows from financing activities** | | |
| Redemption of redeemable participating shares | (8,999,962) | (11,999,954) |
| Distributions to equity Shareholders | (576,396) | (3,356,259) |
| **Net cash outflow from financing activities** | **(9,576,358)** | **(15,356,213)** |
| Net (decrease)/increase in cash and cash equivalents | (1,416,643) | 5,689,132 |
| **Cash and cash equivalents at beginning of the period** | 8,017,025 | 16,321,866 |
| **Cash and cash equivalents at end of the period** | **6,600,382** | **22,010,998** |

**The condensed schedule of investments and the notes to the financial statements are an integral part of the financial statements.**

## Condensed Schedule of Investments, at Fair Value
## As at 31 March 2019

| | U.K. | France | Germany | Italy | Netherlands | Spain | Switzerland | Luxembourg | Denmark | Austria | Belgium | Others | Total | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | % |
| **Financial assets at fair value through profit or loss** | | | | | | | | | | | | | | |
| **Debt securities/asset backed securities** | | | | | | | | | | | | | | |
| Corporate loans | 11,484,491 | - | - | - | - | - | - | - | - | - | - | - | 11,484,491 | 24.25% |
| SME loans | - | 1,817 | 156,391 | 10,088,294 | 13,955 | 11,503,701 | 3,836,957 | 1,517 | 3,166 | 3,409 | 5,413 | | 25,614,620 | 54.10% |
| Mortgages | 66,907 | - | - | - | - | 2,309,256 | - | - | - | - | - | - | 2,376,163 | 5.02% |
| Term Deposit | 54,808 | - | - | - | - | - | - | - | - | - | - | - | 54,808 | 0.12% |
| **Debt securities/asset backed securities total** | **11,606,206** | **1,817** | **156,391** | **10,088,294** | **13,955** | **13,812,957** | **3,836,957** | **1,517** | **3,166** | **3,409** | **5,413** | **-** | **39,530,082** | **83.49%** |
| **Derivative financial assets** | | | | | | | | | | | | | | |
| Forward FX contracts | - | - | - | - | - | - | - | - | - | - | - | 754,039 | 754,039 | 1.59% |
| Forward FX contracts total | - | - | - | - | - | - | - | - | - | - | - | 754,039 | 754,039 | 1.59% |
| **Derivative financial assets total** | - | - | - | - | - | - | - | - | - | - | - | **754,039** | **754,039** | **1.59%** |
| **Financial assets at fair value through profit or loss total** | **11,606,206** | **1,817** | **156,391** | **10,088,294** | **13,955** | **13,812,957** | **3,836,957** | **1,517** | **3,166** | **3,409** | **5,413** | **754,039** | **40,284,121** | **85.08%** |
| **Financial liabilities at fair value through profit or loss** | | | | | | | | | | | | | | |
| **Derivative financial liabilities** | | | | | | | | | | | | | | |
| CDS | - | - | - | - | - | - | - | - | - | - | - | (25,976) | (25,976) | (0.05%) |
| CDS total | - | - | - | - | - | - | - | - | - | - | - | (25,976) | (25,976) | (0.05%) |
| Forward FX contracts | - | - | - | - | - | - | - | - | - | - | - | (100,807) | (100,807) | (0.22%) |
| Forward FX contracts total | - | - | - | - | - | - | - | - | - | - | - | (100,807) | (100,807) | (0.22%) |
| **value through profit or loss total** | - | - | - | - | - | - | - | - | - | - | - | **(126,783)** | **(126,783)** | **(0.27%)** |
| **Total net investments** | **11,606,206** | **1,817** | **156,391** | **10,088,294** | **13,955** | **13,812,957** | **3,836,957** | **1,517** | **3,166** | **3,409** | **5,413** | **627,256** | **40,157,338** | **84.81%** |
| **Other assets and liabilities** | | | | | | | | | | | | | **7,193,567** | **15.19%** |
| **Net assets** | | | | | | | | | | | | | **47,350,905** | **100.00%** |

## Condensed Schedule of Investments, at Fair Value

**As at 30 September 2018**

| | U.K. | France | Germany | Italy | Netherlands | Portugal | Spain | Switzerland | Luxembourg | Denmark | Austria | Belgium | Others | Total | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | % |
| **Financial assets at fair value through profit or loss** | | | | | | | | | | | | | | | |
| **Debt securities/asset backed securities** | | | | | | | | | | | | | | | |
| Corporate loans | 11,433,855 | - | - | - | - | - | - | - | - | - | - | - | - | 11,433,855 | 20.42% |
| SME loans | - | 1,774 | 153,979 | 10,631,194 | 13,684 | 5,237,238 | 12,182,784 | 3,909,496 | 1,489 | 3,114 | 3,351 | 5,302 | - | 32,143,405 | 57.39% |
| Mortgages | 70,640 | - | - | - | - | - | 2,386,912 | - | - | - | - | - | - | 2,457,552 | 4.39% |
| **Debt securities/asset backed securities total** | **11,504,495** | **1,774** | **153,979** | **10,631,194** | **13,684** | **5,237,238** | **14,569,696** | **3,909,496** | **1,489** | **3,114** | **3,351** | **5,302** | **-** | **46,034,812** | **82.20%** |
| Forward FX contracts | - | - | - | - | - | - | - | - | - | - | - | - | 28,514 | 28,514 | 0.05% |
| Forward FX contracts total | - | - | - | - | - | - | - | - | - | - | - | - | 28,514 | 28,514 | 0.05% |
| **Derivative financial assets total** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **28,514** | **28,514** | **0.05%** |
| **Financial assets at fair value through profit or loss total** | **11,504,495** | **1,774** | **153,979** | **10,631,194** | **13,684** | **5,237,238** | **14,569,696** | **3,909,496** | **1,489** | **3,114** | **3,351** | **5,302** | **28,514** | **46,063,326** | **82.25%** |
| **Financial liabilities at fair value through profit or loss** | | | | | | | | | | | | | | | |
| **Derivative financial liabilities** | | | | | | | | | | | | | | | |
| Credit default swap | - | - | - | (4,181) | - | - | - | - | - | - | - | - | - | (4,181) | (0.01%) |
| Credit default swap total | - | - | - | (4,181) | - | - | - | - | - | - | - | - | - | (4,181) | (0.01%) |
| Forward FX contracts | - | - | - | - | - | - | - | - | - | - | - | - | (12,357) | (12,357) | (0.02%) |
| Forward FX contracts total | - | - | - | - | - | - | - | - | - | - | - | - | (12,357) | (12,357) | (0.02%) |
| **Financial liabilities at fair value through profit or loss total** | **-** | **-** | **-** | **(4,181)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(12,357)** | **(16,538)** | **(0.03%)** |
| **Total net investments** | **11,504,495** | **1,774** | **153,979** | **10,627,013** | **13,684** | **5,237,238** | **14,569,696** | **3,909,496** | **1,489** | **3,114** | **3,351** | **5,302** | **16,157** | **46,046,788** | **82.22%** |
| **Other assets and liabilities** | | | | | | | | | | | | | | **9,954,504** | **17.78%** |
| **Net assets** | | | | | | | | | | | | | | **56,001,292** | **100.00%** |

## Notes to the Condensed Unaudited Financial Statements

### 1. General information

Background information on the Company's activities can be found in the Company's prospectus dated 23 September 2013 and please also refer to the year end 2018 Financial Statements, both of which are available on our website address www.chenavaricapitalsolutions.com.

### 2. Summary of significant accounting policies

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

#### 2.1 Basis of preparation

The Annual Financial Statements of the Company are prepared in accordance with IFRS as adopted by the European Union, the Disclosure and Transparency Rules of the Financial Conduct Authority and applicable legal and regulatory requirements of the Law. The condensed set of financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting as adopted by the European Union".

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Company's latest set of audited financial statements, a copy of which can be found on our website at www.chenavaricapitalsolutions.com.

#### 2.2 Going concern

The Directors believe that it is appropriate to adopt the going concern basis in preparing the Financial Statements. The Directors have further considered the Company's holding in cash and cash equivalents and the distribution features of the Company's income generating investments, meaning the Company has adequate financial resources to meet its liabilities as they fall due over a period of at least twelve months from the date of approval of the financial statements.

### 3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Company's Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

#### 3.1 Key sources of estimation uncertainty

*Fair value of financial instruments*

The assets held by the Company are mostly valued through a combination of dedicated price feeds from recognised valuation vendors and the application of relevant broker quotations where the broker is a recognised market maker in the respective position and where there are not readily available, internal valuations are used.

A documented valuation policy determines the hierarchy of prices to be applied to the fair value. Prices are sourced from third party broker or dealer quotes for the relevant security. Where no third party price is available, or where the Investment Manager determines that the third party quote is not an accurate representation of the fair value, the Investment Manager will determine the valuation based on the valuation policy. This may include the use of a comparable arm's length transaction, reference to other securities that are substantially the same, discounted cash flow analysis and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

Note 7 outlines the Level 3 classifications and the analysis of the impacts of Level 3 investments on the performance of the Company.

**Notes to the Condensed Unaudited Financial Statements (continued)**

## 3. Critical accounting judgements and key sources of estimation uncertainty (continued)

### 3.2 Critical judgements in applying accounting policies

*Functional currency*
The Company transacts and holds investments and cash balances in multiple currencies. The Board of Directors considers GBP (£) as the currency that most fairly represents the economic effect of the underlying transactions, events and conditions. The performance of the Company is measured and reported to the investors in GBP.

*Valuation and classification of investments*
The Board of Directors consider the valuation of investments and the classification of these investments in the fair value hierarchy as the critical judgements. The fair value of investments is described in 3.1 above and the judgements associated with the disclosures in the fair value hierarchy are described in note 7.

## 4. Related parties

*(a) Directors' remuneration & expenses*
The Directors of the Company are remunerated for their services at such a rate as the Directors determine. The fee for Mr. Mouchotte is £25,000. The fee for Mr. Stokes as Chairman of the Audit Committee is £25,000 per annum. The fee for Mr. King as Chairman is £25,000 per annum.

During the period ended 31 March 2019, directors fees of £27,917 (for the period ended 31 March 2018: £57,500) were charged to the Company, of which £4,167 (30 September 2018: £nil) remained payable at the end of the period.

*(b) Shares held by related parties*
At 31 March 2019, the Directors held the following Shares in the Company: Mr King 12,126, Mr Stokes 16,168 and Mr Mouchotte 2,022.

As at 31 March 2019 representatives of the Investment Manager and/or the Investment Advisor held 72,731 shares of the Issued Share Capital of the Company. Additionally, Chenavari Investment Managers Holdings, which is the holding Company of the Investment Manager and the Investment Advisor held 456,732 shares of the Company.

In addition, as of 31 March 2019, a fund managed by the Investment Manager held 10,573,066 shares of the Company.

*(c) Investment Manager and AIFM*
The Company receives investment management services from the Investment Manager, a limited company (Société à Responsabilité Limitée de Droit Luxembourgeois) incorporated in Luxembourg. Under the terms of the investment management agreement dated 23 September 2013 as novated on 22 July 2014 the Investment Manager receives in return a fee of one-twelfth of 1% on the NAV, payable monthly in arrears. The Investment Manager has appointed the Investment Adviser, to provide investment advisory services to the Investment Manager. The Investment Manager is responsible for paying the Investment Adviser. The Investment Management Agreement is terminable by either the Investment Manager or the Company giving to the other not less than 12 months' written notice, such notice not to be served before the fourth anniversary of Admission.

Total management fees for the period amounted to £258,466 for Chenavari Investment Managers (Luxembourg) S.àRL (for the period ended 31 March 2018: £496,718) with £39,412 (30 September 2018: £46,325) in outstanding accrued fees at the period end.

The Investment Manager is also entitled to receive from the Company a performance fee equal to 20% of realised returns (i.e. dividends and capital repayments/returns) to Shareholders, subject to a hurdle of 7.5% per annum with a catch up. The catch-up operates such that a performance fee shall not become payable until the Company has distributed to Shareholders an amount equal to the Gross Issue Proceeds as increased by a hurdle rate of 7.5% per annum (the "Hurdle"). Thereafter, amounts available for distribution in excess of the Hurdle shall be distributed by the Company as to 50% to Shareholders and paid as to 50% to the Investment Manager until the Investment Manager has received 20% of all amounts in excess of the Gross Issue Proceeds. Thereafter, all further amounts available for distribution by the Company shall be distributed as to 80% to Shareholders and paid as to 20% by way of payment of the performance fee to the Investment Manager.

As of 31 March 2019, no performance fee was accrued according to those principles.

**Notes to the Condensed Unaudited Financial Statements (continued)**

**4. Related parties (continued)**

*(c) Investment Manager and AIFM (continued)*
An amount of $46,521 was recharged during the period (at cost) by the Portfolio Manager for the period from 1 January to 31 December 2018 to compensate for market data and fund-specific fees.

The Company has funded investments with a value of £35,507,457 via Convertible Preferred Equity Certificates and/or occasionally beneficiary shares issued by legally segregated compartments of AREO S.àRL ("Areo"), a company incorporated in Luxembourg under the Securitization Law of 2004. Areo is owned by the Chenavari group and Chenavari funds and is managed by a Board of Directors composed of a majority of independent directors that consider investment opportunities sourced by the Investment Adviser. The Company is currently invested in six compartments of Areo, which it fair values in accordance with IFRS 13 as set out in the Company's accounting policies. The Investment Manager and Investment Adviser receive no fees from Areo in relation to these transactions.

**5. Material agreements**

*(a) Corporate broker*
Fidante Partners Europe Limited, trading as Fidante Capital, receives a retainer for their corporate broking services of £30,000 per annum, payable semi-annually in arrears.

*(b) Administration fee*
Estera Administration (Guernsey) Limited (the "Administrator") serves as the Company's administrator and secretary. The Administrator is entitled to a fee of £27,500 per annum. All fees are payable quarterly in advance. Administration fees for the period amounted to £13,750 (period ended 31 March 2018: £26,000).

(c) *Sub-administration fee*
The Administrator has appointed U.S Bank Global Fund Services (Ireland) Limited (the "Sub-Administrator") as the Company's sub-administrator.

The Sub-Administrator is entitled to a fee of £27,500 per annum, excluding certain expenses. Sub-administration fees for the period amounted to £15,653 (period ended 31 March 2018: £31,724) of which £968 (30 September 2018: £2,253) remained payable at the end of the period.

*(d) Custodian fee*
JPMorgan Chase Bank N.A has been appointed to act as custodian to the Company and to provide custodial, settlement and other associated services to the Company. Under the provisions of the custodian agreement dated 5 September 2013 the Custodian is entitled to a safekeeping and administration fee on each transaction calculated using a basis point fee charge based on the country of settlement and the value of the assets together with various other payment/wire charges on outgoing payments, subject to an aggregate minimum fee of £21,500 per annum.

*(e) Depository fee*
Elavon Financial Services Limited has been appointed to act as depository to the Company. The Depository is entitled to 0.05% per annum of NAV. Depository fees for the period amounted to £1,292 (period ended 31 March 2018: £2,484) of which £591 (30 September 2018: £232) remained payable at the end of the period.

*(f) Investment Manager*
Contractual arrangements relating to the Investment Manager are detailed in note 4.

**6. Financial risk management**

The responsibility for financial risk management lies with the Board of the Company but it has delegated the day to day monitoring of this to the Investment Manager.

The Investment Adviser will be responsible for sourcing potential investments. Recommended investments will be presented to the Investment Manager for its approval. The Investment Manager will not be required to, and generally will not, submit decisions concerning the discretionary or ongoing management of the Company's assets for the approval of the Board, except where such approval relates to an application of the investment guidelines or a conflict of interest. Any investment recommended by the Investment Adviser which the Investment Manager rejects will however, be promptly notified to the Board.

**Notes to the Condensed Unaudited Financial Statements (continued)**

## 6. Financial risk management (continued)

### 6.1 Credit risk

The main concentration of credit risk to which the Company is exposed arises from the Company's investments in Regulatory Capital Transactions.

The Company mitigates its credit risk on Regulatory Capital transactions through extensive due diligence before investment.

To the extent that the Portfolio is exposed to underlying concentrations in any one geographical region, borrower sector or credit or asset type, an economic downturn relating generally to such geographical region, borrower type or credit or asset type may result in an increase in underlying defaults or prepayments within a short time period. This could reduce the Company's income (and thus the ability to pay dividends to Shareholders), the NAV and the value of the Shares. The Portfolio is expected to carry leveraged exposure and an increase in credit losses with respect to any or all Collateral could reduce the Company's income (and thus the ability to pay dividends to Shareholders), the NAV and the value of the Shares.

No more than 20% of the NAV, calculated at the time of investment, will be exposed to any one Bank Counterparty. Such exposure will be calculated on a net basis, taking into account effective credit hedging arrangements entered into by the Company in relation to the relevant Bank Counterparty. This limit shall increase to 25% net exposure to any one Bank Counterparty where, in the Board's opinion, the relevant Investment Instrument is expected to amortise such that, within one year of investment, the expected capital balance outstanding is less than 20% of NAV, calculated at the time of investment.

Where credit hedging arrangements are used in order to comply with these limits, the hedges will be maintained such that the net exposure to the Bank Counterparty is no more than 20% of the NAV as at the date that any relevant credit hedging contract matures or is adjusted or rolled over.

For the avoidance of doubt, cash held on deposit under the terms of an Investment Instrument may be held without limit with a financial institution with short term credit ratings of A-2 (Standard & Poor's) or P-2 (Moody's) or better.

The Company manages the portfolio with appropriate diversification in terms of sectors and geographical breakdowns.

As at 31 March 2019 and 30 September 2018, the breakdown of the NAV per asset class and geography was as follows:

| **Asset class breakdown** | **31 March 2019** | **30 September 2018** |
|---|---|---|
| | **% NAV** | **% NAV** |
| SME loans | 54.10% | 57.40% |
| Corporate loans | 24.25% | 20.41% |
| Mortgages | 5.02% | 4.39% |
| Term Deposit | 0.12% | - |
| Cash, hedges and accruals | 16.51% | 17.80% |
| **Total** | **100.00%** | **100.00%** |

**Notes to the Condensed Unaudited Financial Statements (continued)**

## 6. Financial risk management (continued)

### 6.1 Credit risk (continued)

| **Geographic breakdown** | **31 March 2019** | **30 September 2018** |
|---|---|---|
| | **% NAV** | **% NAV** |
| U.K. | 24.51% | 20.54% |
| France | 0.00% | 0.00% |
| Germany | 0.33% | 0.27% |
| Italy | 21.31% | 18.99% |
| Netherlands | 0.03% | 0.02% |
| Portugal | - | 9.35% |
| Spain | 29.17% | 26.02% |
| Switzerland | 8.10% | 6.98% |
| Luxembourg | 0.00% | 0.00% |
| Denmark | 0.01% | 0.01% |
| Austria | 0.01% | 0.01% |
| Belgium | 0.02% | 0.01% |
| Cash, hedges and accruals | 16.51% | 17.80% |
| **Total** | **100.00%** | **100.00%** |

The Company is also exposed to counterparty credit risk on forwards, cash and cash equivalents, amounts due from brokers and other receivable balances, as shown in the following table:

| **S&P Rating** | **Bank of America** | **Citigroup** | **JP Morgan*** | **RBS** | **Total** |
|---|---|---|---|---|---|
| | **A-2** | **A-2** | **A-2** | **A-2** | |
| | **£** | **£** | **£** | **£** | **£** |
| **31 March 2019** | | | | | |
| Cash and cash equivalents | - | - | 6,136,506 | 463,876 | 6,600,382 |
| Due from broker | 527,533 | 176,433 | - | - | 703,966 |
| CDS | (25,976) | - | - | - | (25,976) |
| Forward FX contracts | 653,232 | - | - | - | 653,232 |
| **Total counterparty exposure** | **1,154,789** | **176,433** | **6,136,506** | **463,876** | **7,931,604** |
| **Net asset exposure %** | **2.44%** | **0.37%** | **12.96%** | **0.98%** | **16.75%** |
| **30 September 2018** | | | | | |
| Cash and cash equivalents | - | - | 8,017,025 | - | 8,017,025 |
| Due from broker | 1,938,663 | 176,002 | 27,819 | - | 2,142,484 |
| CDS | (4,181) | - | - | - | (4,181) |
| Forward FX contracts | 16,157 | - | - | - | 16,157 |
| **Total counterparty exposure** | **1,950,639** | **176,002** | **8,044,844** | **-** | **10,171,485** |
| **Net asset exposure %** | **3.48%** | **0.31%** | **14.37%** | **-** | **18.16%** |

** JP Morgan cash and cash equivalents represents cash held in a custodian account.*

**Notes to the Condensed Unaudited Financial Statements (continued)**

**6. Financial risk management (continued)**

**6.1 Credit risk (continued)**

*Offsetting financial assets and financial liabilities*

The Company enters into transactions with a number of counterparties whereby the resulting financial instrument is subject to an enforceable master netting arrangement or similar agreement, such as an International Swaps and Derivatives Association ("ISDA") Master Agreement (a "Master Netting Agreement"). Such Master Netting Agreements may allow for net settlement of certain open contracts where the Company and the respective counterparty both elect to settle on a net basis. In the absence of such an election, contracts will be settled on a gross basis. All Master Netting Agreements allow for net settlement at the option of the non-defaulting party in an event of default, such as failure to make payment when due or bankruptcy.

The Company receives and provides cash collateral in respect of derivative transactions subject to the standard industry terms of ISDA's Credit Support Annex.

None of the financial assets and financial liabilities are offset in the Statement of Financial Position, as the Master Netting Agreements create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Company or counterparties. In addition, the Company and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

**6.2 Foreign currency risk**

Foreign currency risk is the risk of gain or loss resulting from exposure to movements on exchange rates on investments priced in currencies other than the base currency of the Company. The Company does not actively take risk in foreign currency, but incurs it as a normal course of business and employs a series of economic hedges to minimise these risks.

The currency exposure as at 31 March 2019 is as follows:

| Currency | Investments | FX hedges | Cash | Other net assets | 31 March 2019 Total exposure | 31 March 2019 Total exposure | NAV impact for a +/-10% FX rate move |
|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | % | % |
| CHF | 3,835,308 | (3,866,435) | 36,835 | - | 5,708 | 0.01% | 0.00% |
| EUR | 24,062,593 | (24,570,348) | 575,752 | (72) | 67,925 | 0.14% | 0.01% |
| USD | - | - | 3,476 | 40,819 | 44,295 | 0.09% | 0.01% |
| | **27,897,901** | **(28,436,783)** | **616,063** | **40,747** | **117,928** | **0.24%** | **0.02%** |

The currency exposure as at 30 September 2018 is as follows:

| Currency | Investments | FX hedges | Cash | Other net assets | 30 September 2018 Total exposure | 30 September 2018 Total exposure | NAV impact for a +/-10% FX rate move |
|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | % | % |
| CHF | 3,908,469 | (3,900,837) | 551 | - | 8,183 | 0.01% | 0.00% |
| EUR | 30,617,667 | (31,197,007) | 838,833 | 19,301 | 278,794 | 0.50% | 0.05% |
| USD | - | - | 12,327 | 2,093 | 14,420 | 0.03% | 0.00% |
| | **34,526,136** | **(35,097,844)** | **851,711** | **21,394** | **301,397** | **0.54%** | **0.05%** |

**Notes to the Condensed Unaudited Financial Statements (continued)**

## 6. Financial risk management (continued)

### 6.3 Interest rate risk

Interest rate risk is the risk of gain or loss resulting from exposure to movements on interest rates. The Company only holds floating rate financial instruments which have little exposure to fair value interest rate risk as, when the short term interest rates increase, the interest on a floating rate note will increase. The value of asset backed securities may be affected by interest rate movements, i.e. if interest rates increased/decreased this would have a positive/negative impact on NAV. Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations on interest rates; however the underlying cash positions will not be affected.

The Company's continuing position in relation to interest rate risk is monitored by the Investment Manager.

| | Fixed rate interest | Floating rate interest | Non-interest bearing |
|---|---|---|---|
| | £ | £ | £ |
| **31 March 2019** | | | |
| Financial assets at fair value through profit or loss | 13,934,672 | 25,595,410 | 754,039 |
| Due from broker | - | 703,966 | - |
| Other receivables and prepayments | - | - | 8,267 |
| Cash and cash equivalents | - | 6,600,382 | - |
| Financial liabilities at fair value through profit or loss | (25,976) | - | (100,807) |
| Accrued expenses | - | - | (119,048) |
| | **13,908,696** | **32,899,758** | **542,451** |
| **30 September 2018** | | | |
| Financial assets at fair value through profit or loss | 11,504,495 | 34,530,318 | 28,514 |
| Due from broker | - | 2,142,484 | - |
| Other receivables and prepayments | - | - | 6,004 |
| Cash and cash equivalents | - | 8,017,025 | - |
| Financial liabilities at fair value through profit or loss | - | (4,181) | (12,357) |
| Accrued expenses | - | - | (211,009) |
| | **11,504,495** | **44,685,646** | **(188,848)** |

### 6.4 Liquidity risk

A proportion of the Company's statement of financial position is made up of assets and liabilities which may not be realisable as cash on demand. As a result an exposure to liquidity risk exists. This risk is mitigated by the closed-ended nature of the Company and the reinvestment period and distribution features.

The table below analyses the Company's liabilities into relevant maturity groups based on the remaining period at the statement of financial position date to the contractual maturity date.

| | Less than 3 months | Greater than 3 months | Total |
|---|---|---|---|
| | £ | £ | £ |
| **31 March 2019** | | | |
| Financial liabilities at fair value through profit or loss | (100,807) | (25,976) | (126,783) |
| Accrued expenses | (91,283) | (27,765) | (119,048) |
| | **(192,090)** | **(53,741)** | **(245,831)** |
| **30 September 2018** | | | |
| Financial liabilities at fair value through profit or loss | (12,357) | (4,181) | (16,538) |
| Accrued expenses | (176,965) | (34,044) | (211,009) |
| | **(189,322)** | **(38,225)** | **(227,547)** |

The Company is all equity funded and has been established as a Registered Closed-ended Collective Investment Scheme. Other than in the circumstances and subject to the conditions set out in Part I of the prospectus, Shareholders will have no right to have their Shares redeemed or repurchased by the Company at any time. Shareholders wishing to realise their investment in the Company will normally therefore be required to dispose of their Shares through the secondary market.

**Notes to the Condensed Unaudited Financial Statements (continued)**

## 6. Financial risk management (continued)

### 6.5 Price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments and credit ratings of debt issuers in which the Company invests. Market price risk represents the potential loss the Company may suffer through price movements on its investments.

The Company is exposed to market price risk arising from the investments in equity securities, debt and derivatives.

The Investment Manager manages the Company's price risk and monitors its overall market positions on a daily basis in accordance with the Company's investment objective and policies. The Company's overall market positions are monitored on a quarterly basis by the Board of Directors.

As at 31 March 2019, a 5% movement in prices (with all other variables held constant) would have resulted in a change to the total net assets of £2,007,867 (30 September 2018: £2,302,339).

## 7. Fair value of financial instruments

The fair values of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the period end date. The Company has adopted IFRS 13, 'Fair value measurement' and this standard requires the Company to price its financial assets and liabilities using the price in the bid-ask spread that is most representative of fair value for both financial assets and financial liabilities. If a significant movement in fair value occurs subsequent to the close of trading up to midnight on the period end date, valuation techniques will be applied to determine the fair value. No such event occurred. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

For financial assets and liabilities not traded in active markets the fair value is determined by using various methods including internal models, alternative price sources including a combination of dedicated price feeds from recognised valuation vendors and the application of relevant broker quotations where the broker is a recognised dealer in the respective position. Where broker quotes are not available, investment valuations are based on the Investment Adviser's internal models.

The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1: Quoted price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques for which all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Company. The Company considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

**Notes to the Condensed Unaudited Financial Statements (continued)**

## 7. Fair value of financial instruments (continued)

The following tables show the Company's assets and liabilities based on the hierarchy set out in IFRS 13:

**As at 31 March 2019**

| Assets | Quoted prices in active markets for identical assets (Level 1) £ | Significant other observable inputs (Level 2) £ | Significant unobservable inputs (Level 3) £ | Total £ |
|---|---|---|---|---|
| **Financial assets held for trading** | | | | |
| Debt securities (by instrument currency) | | | | |
| Europe: Asset backed securities | - | - | 24,155,475 | 24,155,475 |
| UK: Asset backed securities | - | - | 15,319,799 | 15,319,799 |
| UK: Money Market | | 54,808 | - | 54,808 |
| OTC derivatives | | | | |
| Forward FX contracts | - | 754,039 | - | 754,039 |
| **Total assets** | **-** | **808,847** | **39,475,274** | **40,284,121** |
| **Liabilities** | | | | |
| **Financial liabilities held for trading** | | | | |
| OTC derivatives | | | | |
| CDS | - | (25,976) | - | (25,976) |
| Forward FX contracts | - | (100,807) | - | (100,807) |
| **Total liabilities** | **-** | **(126,783)** | **-** | **(126,783)** |

**As at 30 September 2018**

| Assets | Quoted prices in active markets for identical assets (Level 1) £ | Significant other observable inputs (Level 2) £ | Significant unobservable inputs (Level 3) £ | Total £ |
|---|---|---|---|---|
| **Financial assets held for trading** | | | | |
| Debt securities (by instrument currency) | | | | |
| Europe: Asset backed securities | - | - | 30,692,488 | 30,692,488 |
| UK: Asset backed securities | - | - | 15,342,324 | 15,342,324 |
| | - | - | | |
| OTC derivatives | | | | |
| Forward FX contracts | - | 28,514 | - | 28,514 |
| **Total assets** | **-** | **28,514** | **46,034,812** | **46,063,326** |
| **Liabilities** | | | | |
| **Financial liabilities held for trading** | | | | |
| OTC derivatives | | | | |
| CDS | - | (4,181) | - | (4,181) |
| | - | (12,357) | - | (12,357) |
| **Total liabilities** | **-** | **(16,538)** | **-** | **(16,538)** |

Financial instruments 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 corporate bonds, asset backed bonds, certain non-sovereign obligations and over-the-counter derivatives. As Level 3 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.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently.

## Notes to the Condensed Unaudited Financial Statements (continued)

### 7. Fair value of financial instruments (continued)

There has been no transfer from Level 3 to Level 2 (30 September 2018: no transfer during the year) during the period. Eight Level 3 investments (30 September 2018: nine) were held at period end. There has been no transfers from Level 2 to Level 3 (30 September 2018: none).

| Product type | Transaction | Trade date | 30/09/2018 Fair value | Realised | Unrealised & FX | Purchases | Sales | Redemption | Transfer from/to Level 2 | 31/03/2019 Fair value |
|---|---|---|---|---|---|---|---|---|---|---|
| BS CLO | 4 | 26/11/2013 | 5,237,238 | (42,316,014) | 41,306,721 | - | (4,227,945) | - | - | - |
| NPL | 8 | 07/10/2014 | 12,182,785 | (318,673) | (72,098) | - | (288,313) | - | - | 11,503,701 |
| NPL | 9 | 24/09/2015 | 2,386,912 | - | (77,657) | - | - | - | - | 2,309,255 |
| BS CLO | 11 | 19/12/2014 | 7,112,313 | - | (352,400) | - | - | - | - | 6,759,913 |
| BS CLO | 12 | 26/06/2015 | 3,518,881 | - | (190,499) | - | - | - | - | 3,328,382 |
| RMBS | 13 | 18/02/2015 | 70,640 | - | (3,733) | - | - | - | - | 66,907 |
| BS CLO | 15 | 15/07/2016 | 11,433,855 | - | 50,636 | - | - | - | - | 11,484,491 |
| BS CLO | 16 | 11/05/2016 | 3,908,469 | - | (73,161) | - | - | - | - | 3,835,308 |
| BS CLO | 17 | 26/05/2016 | 183,720 | - | 3,597 | - | - | - | - | 187,317 |
| | | | **46,034,813** | **(42,634,687)** | **40,591,406** | **-** | **(4,516,258)** | **-** | **-** | **39,475,274** |

| Product type | Transaction | Trade date | 30/09/2017 Fair value | Realised | Unrealised & FX | Purchases | Sales | Redemption | Transfer from/to Level 2 | 30/09/2018 Fair value |
|---|---|---|---|---|---|---|---|---|---|---|
| BS CLO | 4 | 26/11/2013 | 10,855,814 | - | (5,618,577) | - | - | - | - | 5,237,238 |
| BS CLO | 5 | 30/04/2014 | 8,855,632 | 1,491,932 | (1,774,719) | - | - | (8,572,845) | - | - |
| NPL | 8 | 07/10/2014 | 13,918,681 | 3,104,546 | (3,603,307) | - | (1,237,135) | - | - | 12,182,785 |
| NPL | 9 | 24/09/2015 | 2,724,625 | - | (337,714) | - | - | - | - | 2,386,912 |
| BS CLO | 11 | 19/12/2014 | 7,192,168 | - | (79,855) | - | - | - | - | 7,112,313 |
| BS CLO | 12 | 26/06/2015 | 3,723,820 | - | (204,940) | - | - | - | - | 3,518,881 |
| RMBS | 13 | 18/02/2015 | 367,241 | - | (296,601) | - | - | - | - | 70,640 |
| BS CLO | 15 | 11/05/2016 | 3,856,434 | - | (2,624,181) | - | - | (18,925) | - | 11,433,855 |
| BS CLO | 16 | 26/05/2016 | 11,197,765 | - | 70,960 | - | - | - | - | 3,908,469 |
| BS CLO | 17 | 15/07/2016 | 14,058,036 | 1,960,851 | (1,617,508) | - | - | (11,357,388) | - | 183,720 |
| BS CLO | 18 | 23/05/2014 | 12,599,485 | 1,675,765 | (1,878,603) | - | - | (12,396,648) | - | - |
| | | | **89,349,701** | **8,233,094** | **(17,965,045)** | **-** | **(1,237,135)** | **(32,345,806)** | **-** | **46,034,813** |

| **Product type** | **Description** |
|---|---|
| ARB CDO | Arbitrage CDO |
| ARB CLO | Arbitrage CLO |
| BS CLO | Balance Sheet CLO |
| RMBS | Residential mortgage-backed security |
| NPL | Non-performing loan |

As of 31 March 2019, eight (30 September 2018: nine) investments were categorised within Level 3 of the fair value hierarchy, representing 84.81% (30 September 2018: 82.20%) of the NAV.

In order to measure Level 3 assets sensitivities, the Company is using the sensitivity scenario prepared by the Investment Adviser. Those scenario are testing all main parameters simultaneously and do not represent levels at which a transaction who occur on those investments in normal conditions. Typical parameters tested are default rates, recovery rates and prepayment rates. An increase in default rates would result in a decrease to the NAV. An increase in recovery rates and prepayments would result in an increase to the NAV.

**Notes to the Condensed Unaudited Financial Statements (continued)**

**7. Fair value of financial instruments (continued)**

The intensity of test varies across the portfolio and differ according to asset class, sector, vintage and country.

*Transaction 8*
The main sensitivity of the transaction is to the collection level on the pool of loans.

In the Investment Adviser's sensitivity scenario the impact to the Company's NAV is 2.07% (30 September 2018: 2.72 %).

*Transaction 9*
The main sensitivity of the transaction is to the collection level on the pool of loans.

In the Investment Adviser's sensitivity scenario the impact to the Company's NAV is 0.67% (30 September 2018: 1.35%).

*Transaction 11*
The main sensitivity of the transaction is to the occurrence of defaults and recovery rates in the underlying reference pool.

In the Investment Adviser's sensitivity scenario the impact to the Company's NAV is 0.11% (30 September 2018: 0.21%).

*Transaction 12*
The main sensitivity of the transaction is to the occurrence of defaults and recovery rates in the underlying reference pool.

In the Investment Adviser's sensitivity scenario the impact to the Company's NAV is 0.02% (30 September 2018: 0.01%).

*Transaction 13*
The main sensitivity of the transaction is to the exit price of the portfolio.

In the Investment Adviser's sensitivity scenario the impact to the Company's NAV is 0.00% (30 September 2018: 0.00%).

*Transaction 15*
The main sensitivity of the transaction is to the occurrence of defaults in the underlying reference pool and extension risk.

In the Investment Adviser's sensitivity scenario the impact to the Company's NAV is 0.65% (30 September 2018: 0.65%).

*Transaction 16*
The main sensitivity of the transaction is to the occurrence of defaults and recovery rates in the underlying reference pool.

In the Investment Adviser's sensitivity scenario the impact to the Company's NAV is 0.06% (30 September 2018: 0.15%).

*Transaction 17*
The main sensitivity of the transaction is to the occurrence of defaults and recovery rates in the underlying reference pool.

In the Investment Adviser's sensitivity scenario the impact to the Company's NAV is 0.00% (30 September 2018: 0.00%).

**Notes to the Condensed Unaudited Financial Statements (continued)**

## 8. Earnings per Share - Basic & Diluted

The earnings per Share - Basic and Diluted of 1.60p (31 March 2018: (0.76)p has been calculated based on the weighted average number of Shares of 57,833,963 (31 March 2018: 108,695,671) and a net profit of £925,971 (31 March 2018: net loss of £828,248) over the Period.

There were no dilutive elements to Shares issued or repurchased during the Period.

## 9. NAV per Share

The NAV per Share of 90.00p (30 September 2018: 89.37p) is determined by dividing the net assets of the Company attributed to the Shares of £47,612,569 (30 September 2018: £56,001,292) by the number of Shares in issue at 31 March 2019 of 52,614,517 (30 September 2018: 62,664,726).

## 10. Financial assets and financial liabilities at fair value through profit or loss

| | **31 March 2019** | **30 September 2018** |
|---|---|---|
| | **£** | **£** |
| Financial assets at fair value through profit or loss: | | |
| - Debt securities | 27,990,783 | 11,433,854 |
| - Asset backed securities | 11,484,491 | 34,600,958 |
| - Money market | 54,808 | - |
| - Forwards FX contracts | 754,039 | 28,514 |
| **Total financial assets at fair value through profit or loss** | **40,284,121** | **46,063,326** |
| | | |
| Financial liabilities at fair value through profit or loss: | | |
| - CDS | (25,976) | (4,181) |
| - Forwards FX contracts | (100,807) | (12,357) |
| **Total financial liabilities at fair value through profit or loss** | **(126,783)** | **(16,538)** |

## 11. Net gain/(loss) on financial assets and financial liabilities at fair value through profit or loss, foreign exchange and forward FX contracts

| | **31 March 2019** | **31 March 2018** |
|---|---|---|
| | **£** | **£** |
| **Net gain/(loss) on financial assets and liabilities at fair value through profit or loss** | | |
| - CDS | (41,756) | 51,463 |
| - Debt securities | (253,253) | 792,194 |
| - Asset backed securities | 554,455 | (1,988,895) |
| **Net gain/(loss) on financial assets and liabilities at fair value through profit or loss** | **259,446** | **(1,145,238)** |
| | | |
| **Net gain/(loss) on foreign exchange and forward FX contracts** | | |
| Realised gain on forward FX contracts | 558,331 | 4,323,924 |
| Unrealised gain/(loss) on forward FX contracts | 637,075 | (2,447,815) |
| Realised loss on foreign exchange | (66,295) | (969,303) |
| Unrealised (loss)/gain on foreign exchange | (16,630) | 196,936 |
| **Net gain on foreign exchange and forward FX contracts** | **1,112,481** | **1,103,742** |
| | | |
| **Net gain/(loss) on financial assets and liabilities at fair value through profit or loss, foreign exchange and forward FX contracts** | **1,371,927** | **(41,496)** |

**Notes to the Condensed Unaudited Financial Statements (continued)**

## 12. Due from brokers

| | 31 March 2019 | 30 September 2018 |
|---|---|---|
| **Due from** | **£** | **£** |
| Collateral and funding cash | 703,966 | 2,114,665 |
| Receivables for securities sold | - | 27,819 |
| | **703,966** | **2,142,484** |

Collateral and funding cash is held in respect of the credit default contracts as detailed in note 6.1

## 13. Other receivables and prepayments

| | 31 March 2019 | 30 September 2018 |
|---|---|---|
| | **£** | **£** |
| Prepayments | 8,267 | 5,248 |
| Interest receivable | - | 756 |
| | **8,267** | **6,004** |

## 14. Accrued expenses

| | 31 March 2019 | 30 September 2018 |
|---|---|---|
| | **£** | **£** |
| Management fee | 39,412 | 46,325 |
| Audit fee | 27,765 | 34,044 |
| Corporate brokering fee | 14,328 | 37,500 |
| Sub-administration fee | 968 | 2,253 |
| Legal fee | - | 10,149 |
| Custodian fees | - | 2,704 |
| Directors Fee | 4,167 | - |
| Other fees | 32,408 | 78,034 |
| | **119,048** | **211,009** |

## 15. Share capital

The authorised share capital of the Company consists of an unlimited number of unclassified shares of no par value. The unclassified shares may be issued as, (a) Shares in such currencies as the Directors may determine; (b) C Shares in such currencies as the Directors may determine; and (c) such other classes of shares in such currencies as the Directors may determine in accordance with the Articles and the Law. Shares will be redeemable at the option of the Company and not Shareholders.

The rights attaching to the Shares are the same as those presented in the Company's latest audited annual financial statements, a copy of which can be found on our website at www.chenavaricapitalsolutions.com

During the period, the Company announced one compulsory partial redemption payment in December 2018. The amount of the redemption payments totalled £9m. For more information please refer to Notes 19 and 20.

*Capital management*
The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern to provide returns to Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to Shareholders, return capital to shareholders, issue new shares or sell assets.

**Notes to the Condensed Unaudited Financial Statements (continued)**

## 16. Segmental reporting

The Board is responsible for reviewing the Company's entire portfolio and considers the business to have a single operating segment. The Board's asset allocation decisions are based on a single, integrated investment strategy being investments in bank capital solutions transactions and the Company's performance is evaluated on an overall basis.

The Company invests in a diversified portfolio of bank capital solutions transactions. The fair value of the major financial instruments held by the Company and the equivalent percentages of the total value of the Company, are reported in the Schedule of Investments.

Revenue earned is reported separately on the face of the Statement of Comprehensive Income as investment income being interest income received from bank capital solutions transactions.

## 17. Dividend policy

Subject to compliance with the Companies (Guernsey) Law, 2008 (as amended) and the satisfaction of the solvency test, the Company intends to distribute all its income received from investments, net of expenses, by way of dividends on a quarterly basis with dividends declared in October, January, April and July each year and paid in November, February, May and August.

The Company declared two dividends in respect of the period ended 31 March 2018: 0.5 pence per Share paid on 28 February 2019 for the period ended 31 December 2018 and 0.7 pence per Share to be paid on 31 May 2019 for the period ended 31 March 2019. On 30 November 2017, a dividend of 0.5 pence per Share was paid for the period ended 30 September 2018.

Under the Companies (Guernsey) Law, 2008 (as amended), companies can pay dividends in excess of accounting profit provided they satisfy the solvency test prescribed by the Companies Law. The solvency test considers whether a company is able to pay its debts when they fall due, and whether the value of a company's assets is greater than its liabilities.

## 18. Derivative financial instruments

The Company holds the following derivative instruments:

*CDS*
These are derivative contracts referencing an underlying credit exposure, which can either be a single credit issuer or a portfolio of credit issuers. The Company pays or receives an interest flow in return for the counterparty accepting or selling all or part of the risk of default or failure to pay of a reference entity on which the swap is written. Where the Company has bought protection the maximum potential payout is the value of the interest flows the Company is contracted to pay until the maturity of the contract.

*Forward FX contracts*
Forward FX contracts entered into by the Company represent a firm commitment to buy or sell an underlying currency at a specified value and point in time based upon an agreed or contracted quantity. The realised/unrealised gain or loss is equal to the difference between the value of the contract at trade date and the value of the contract at settlement date/year-end date, and is included in the Statement of Comprehensive Income.

**Notes to the Condensed Unaudited Financial Statements (continued)**

## 18. Derivative financial instruments (continued)

*Forward FX contracts (continued)*

The following table shows the Company's derivative position as at 31 March 2019:

| | Financial assets at fair value | Financial liabilities at fair value | Notional amount | Maturity |
|---|---|---|---|---|
| | £ | £ | £ | |
| CDS buy protection | - | (25,976) | 3,877,650 | 20-Sep-20 |
| FX contracts | | | | |
| CHF sell | | (100,807) | 3,765,627 | 14-Jun-19 |
| EUR sell | 754,039 | - | 25,324,388 | 12-Apr-19 |
| GBP buy | - | - | (29,090,015) | |
| | **754,039** | **(126,783)** | **3,877,650** | |

The following table shows the Company's derivative position as at 30 September 2018:

| | Financial assets at fair value | Financial liabilities at fair value | Notional amount | Maturity |
|---|---|---|---|---|
| | £ | £ | £ | |
| CDS buy protection | - | (4,181) | 4,008,150 | 20 September 2020 |
| FX contracts | | | | |
| CHF sell | 28,514 | - | (3,929,351) | 14 December 2018 |
| EUR sell | - | (12,357) | (31,184,650) | 19 October 2018 |
| GBP buy | - | - | 35,114,001 | |
| | **28,514** | **(16,538)** | **4,008,150** | |

## 19. Significant events during the Period

During the Period two dividends were declared. The first for 0.50 pence per Share was declared on 31 October 2018 and paid on 30 November 2018. The second for 0.50 pence per Share was declared on 25 January 2019 and paid on 28 February 2019.

On 14 December 2018, the Company announced its sixth compulsory partial redemption payment to be paid to Shareholders on the record date of 2 January 2019. The amount of the redemption payment was £9,000,000, which was payable to Shareholders in respect of the redemption of approximately 1,603 Shares for every 10,000 Shares held, at a rate of 89.55 pence per Share redeemed.

## 20. Subsequent events

The Company declared a dividend of 0.70 pence per Share on 30 April 2019 which was paid on 31 May 2019.

The Company announced its seventh compulsory redemption payment for £6,300,000 with record date 1 July 2019. It is anticipated that payment will be made to Shareholders on 16 July 2019.

## 21. Approval of the financial statements

The financial statements were approved for issue to Shareholders by the Directors on 5 June 2019.