REAL ESTATE CREDIT INVESTMENTS PCC LIMITED

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016

Contents

About the Company

Real Estate Credit Investments PCC Limited is a protected cell company (the "Company"), being a cellular company governed by the Companies (Guernsey) Law 2008, comprising a core segment (the "Core" or "RECI").

The Company had a cell segment, known as 'European Residual Income Investments Cell' or "ERII". The final Residual Income Position which remained in the Cell was realised in January 2016, and the remaining cash distributed in March 2016. As at 31 March 2016 the Cell had no assets or cash held and has therefore ceased to exist. Only the information of the Core is displayed in these financial statements.

The Core real estate debt strategy focuses on secured residential and commercial debt in the UK and Western Europe, seeking to exploit opportunities in publicly traded securities and real estate loans. In making these investments the Company uses the expertise and knowledge of its Alternative Investment Fund Manager ("AIFM") or ("Investment Manager"), Cheyne Capital Management (UK) LLP ("Cheyne"). The Company has adopted a long term strategic approach to investing and focuses on identifying value.

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

Website and Share Price Information

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

Investment Objective and Investment Policy

The Investment Policy of Real Estate Credit Investments PCC Limited (the “Company”) was subdivided into an Investment Policy for the core segment (the “Core” or “RECI”) and an Investment Policy for the cell segment (the “Cell” or “ERII Cell”). The trading of the Cell Shares on the Specialist Funds Market of the London Stock Exchange (ticker ERII LN) was cancelled on 23 December 2014.

Investment Policy for the Core

Asset Allocation

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

The Company generally invests, either directly or through SPVs and subsidiaries in new Real Estate Debt Investments on a buy-to-hold basis based on an analysis of the credit-worthiness of the underlying assets in the applicable investment. Therefore, the total return from any given investment (if held to maturity) will be driven by actual performance of the underlying real estate loans rather than by market prices. However, the Company will actively manage the Core Portfolio, and may from time to time dispose of an investment prior to its maturity if the Company so decides for reasons including, but not limited to, the price offered being sufficiently attractive, the credit view of the underlying assets changing or superior alternative investments being available. The Company’s investments in Real Estate Debt Investments will have some or all of the following key characteristics:

- investments will be backed, directly or indirectly, by real-estate primarily located in Western Europe and the UK;
- investments will have a varied weighted average life profile, with the weighted average life of the individual investments generally ranging from six months to 15 years;
- investments in securities will be rated by one of Fitch, Moody’s, Standard and Poor’s or another recognised rating agency; and/or
- investments in loans must be secured by one or more commercial or residential properties and loans may not exceed 85 per cent LTV at the time of the investment.

While the Company will have the flexibility to invest in assets to be held in the Core that do not have some or all of the characteristics listed above, such as, inter alia, direct real estate investments, it has adopted a policy which requires that at least 70 per cent of the Core Portfolio comprises of Real Estate Debt Investments. The Investment Manager has agreed with the Company to take such action, including the sale of assets, as would be necessary to correct this imbalance prior to acquiring any further assets which do not qualify as Real Estate Debt Instruments.

The Company will not make investments via derivatives unless the Company has fully collateralised the derivative position or cannot be exposed to margin calls. However, the Company intends to (but shall not be obliged to) reduce exposure to interest rate and currency fluctuations through the use of currency and interest rate hedging arrangements in respect of the Core for the purposes of efficient portfolio management. From time to time, the Company may also enter into derivative transactions to hedge the value of the Core Portfolio.

Directors and Advisers

Directors
Bob Cowdell (Chairman) (appointed 1 June 2015)
Graham Harrison
Christopher Spencer
Mark Burton
John Hallam (appointed 21 March 2016)
Viscount Chandos (Chairman) (resigned 12 June 2015)
Talmai Morgan (resigned 11 August 2015)

Administrator and Secretary of the Company
State Street (Guernsey) Limited
PO Box 543
First Floor, Dorey Court
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Corporate Broker
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25 Ropemaker Street
London EC2Y 9LY

Registrar
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Depositary
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Registered Office
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Alternative Investment Fund Manager
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13 Cleveland Row
London SW1A 1DH

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

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

Sub-Administrator
State Street Fund Services (Ireland) Limited
78 Sir John Rogerson’s Quay
Dublin 2
Ireland

Alternative Investment Fund Managers (“AIFM”) Directive

Certain regular and periodic disclosures required by the Directive may be found either in this Annual Report or on the website at www.recreditinvest.com/regulatory.html

Chairman’s Statement

Financial performance
Real Estate Credit Investments PCC Limited ("RECI" or the "Company") has reported another year of positive performance to the year ended 31 March 2016.

Net asset value ("NAV") at 31 March 2016 was £1.632 per RECI ordinary share ("Ordinary Share") compared to £1.623 per RECI ordinary share as at 31 March 2015, which when combined with total dividends paid in the year of 10.8p per share, provides a NAV total return to Ordinary Shareholders of 7.2% in the year.

RECI reported increased operating income of £17.7 million in the financial year ended 31 March 2016, up from £15.8m in the year ended 31 March 2015. Total net profit for the year ended 31 March 2016 was £8.5 million, compared with £13.8 million in the year ended 31 March 2015. The loan portfolio continued to provide strong returns, but the bond portfolio performance was adversely effected due to mark to market price performance driven by volatility in the wider markets.

A dividend of 2.7p per Ordinary Share has been declared for the quarter ended 31 March 2016. A special dividend of 0.8p per Core Ordinary Shares was also approved by the Directors on 16 June 2016 for the year ended 31 March 2016. Total dividends declared in respect of the financial year will therefore be 11.6p per Ordinary Share, returning £8.4 million to Ordinary Shareholders.

A dividend of 2.0p per Preference Share has been declared for the quarter ended 31 March 2016. Total dividends declared in respect of the financial year will therefore be 8.0p per Preference Share, returning £3.4 million to Preference Shareholders.

During the year, RECI continued to increase its drawn loan portfolio from £87 million at 31 March 2015 to £113 million as at 31 March 2016, increasing its exposure to higher-yielding loans. This strategy delivered a positive performance, notwithstanding challenging market conditions for asset-backed securities and loans.

Board Update
Following my appointment last June, the Company has continued its programme of refreshing the Board. Talmai Morgan, a director of the Company since its launch in 2005, stood down from the Board at the AGM in August 2015. In March 2016 I was pleased to welcome John Hallam to the Board and the Company will benefit from his accountancy background and wide experience as a listed fund non-executive director.

ERII
Last year, my predecessor Viscount Chandos reported that nearly all of the European Residual Income Investments (“ERII”), which had been created as a Cell in August 2011, had been realised and that predominantly all of the Cell’s capital had been returned to ERII Shareholders. On 18 March 2016 the Company announced that the final asset retained in the Cell had been redeemed and that all residual cash, less expense, would be distributed to ERII Shareholders, following which the Cell would cease to exist. With that distribution now completed, it is the Board’s intention to seek approval from Shareholders at the AGM in September 2016 to simplify the Company’s structure by converting from a protected cell company to a non-cellular company. Further details relating to the conversion will be provided in the AGM circular.

Outlook
The economic uncertainty engendered by the potential impact of the EU Referendum on 23 June has caused a reduction in commercial property activity during recent months. Following the vote, your Board and Manager will monitor the potential implications of the outcome of the Referendum on the property sectors targeted by RECI and markets generally.

The robust NAV performance over the last year, notwithstanding the uncertainty in World markets in the first quarter of 2016, and payment of an attractive dividend continue to reward our Shareholders. While the outlook for markets generally remains challenging, requiring a disciplined and flexible approach to securing appropriate investment opportunities, your Board remains confident that the Company can continue to deliver attractive returns for our investors.

Bob Cowdell
Chairman

16 June 2016

Strategic Report

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

Objective, Investment Policy and Business Model
The Objective and Investment Policy set out on page 4 describes the Company's strategy and business model.

There is also an 'About the Company' section on page 3 explaining in more detail the corporate structure and listings of the Shares.

Real Estate Credit Investments PCC Limited (the "Company") is externally managed by Cheyne Capital Management (UK) LLP ("Cheyne Capital"), a UK investment manager authorised and regulated by the Financial Conduct Authority ("FCA"). Cheyne Capital is a limited liability partnership registered in England and Wales on 8 August 2006 and is authorised and regulated in the conduct of investment business in the United Kingdom by the FCA. Cheyne Capital is also the Alternative Investment Fund Manager ("AIFM") of the Company.

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

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

A number of performance measures are considered by the Board and the Investment Manager in assessing the Company's success in achieving its objectives, and considering its progress and performance. The Key Performance Indicators ("KPIs") used are as follows:
- Movement in share price;
- NAV total return;
- Operating Income and Net Profit;
- Weighted average life of loan portfolio; and
- Weighted average LTV for the portfolio.

Details of the Financial Highlights and KPIs are shown on page 11.

Role and Composition of the Board
The Board is the Company's governing body and has overall responsibility for maximising the Company's success by directing and supervising the affairs of the business and meeting the appropriate interests of shareholders and relevant stakeholders, while enhancing the value of the Company and also ensuring protection of investors. A summary of the Board's responsibilities is as follows:
- Statutory obligations and public disclosure;
- Strategic matters and financial reporting;
- Risk assessment and management including reporting compliance, governance, monitoring and control; and
- Other matters having a material effect on the Company.

Long Term Viability
In accordance with provision C.2.2 of the revision of the Code of Corporate Governance, the Directors have assessed the prospect of the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Board adopted a three year review plan in line with the Company's strategy review period.

The three year strategic review considers the Company's cash flows arising from the loan and bond portfolios, including interest received and proceeds from realisations, obligations of the Company and dividend cover. Further considerations are made to the inherent sensitivities within the loan and bond portfolios, and consequence on the cash flows.

For the purposes of this review, the Board has assumed the continuation vote to be held in Q3 2017 is passed.

The assessment also takes into account the full and final settlement of the Preference Share Liability, and to be conservative, assumes no alternative financing is obtained.

Strategic Report (continued)

Long Term Viability (continued)
The Board has identified a number of Principal Risks, which are detailed fully below. The board has taken these into account when considering the long term viability review of the Company.

The Board has assessed the three year strategic review, together with stress testing the performance against a number of adverse scenarios, such as the fair value write down of the investments, or reduced cash flows from the investment portfolio. The fair value stress test was considered relevant to factor any potential events or credit concerns on the underlying assets secured on the loans that could arise and which potentially could impact on the fair value. The reduced cash flows stress test was considered relevant in the event of potential defaults arising on the loan portfolio and the inability to recover the interest or principle back in full. Even taking these stress scenarios into account, the Company is able to meet its liabilities (expenses and dividends) over the lookout period.

Risk Management
It is the role of the Board of Directors (the "Board") to review and manage all risks associated with the Company, mitigating these either directly or through the delegation of certain responsibilities to the Audit Committee and Investment Manager as AIFM. The Board performs a review of a risk matrix at each Board Meeting.

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

For further information on risks please refer to Note 14.

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

The Board monitors investment strategy and performance on an on-going basis and regularly reviews the Objective and Investment Policy in light of prevailing investor sentiment to ensure the Company remains attractive to its shareholders. While the Board may seek to mitigate any discount to NAV per share, there can be no guarantee that they will do so and the Board accepts no responsibility for any failure of any such strategy to effect a reduction in any discount or premium.

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

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

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

Valuation
Valuation of the Company's investments in Real Estate Debt Bonds and Real Estate Loan Portfolio are the key value driver for the Company's NAV and interest income. Judgements over fair value estimates could significantly affect these key performance indicators.

IFRS 13 requires disclosures surrounding the level in the fair value hierarchy in which fair value measurement inputs are categorised for assets and liabilities measured in the Statement of Financial Position. The determination of the fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective. See Note 14 (d) for further information regarding the fair value hierarchy.

Strategic Report (continued)

Market Risk

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

The Company's strategy on the management of market risk is driven by the Company's investment objective detailed in Note 1 of the financial statements. The investment objective for the Company is to invest in debt secured by commercial or residential properties in Western Europe and the UK ("Real Estate Debt Investments"). The Real Estate Debt Investments may take different forms but will be likely to be: (i) securitised tranches of secured real estate related debt securities, for example, RMBS and CMBS (together "MBS"); and (ii) secured real estate loans, debentures or any other form of debt instrument. This objective aims to provide Ordinary Shareholders with a levered exposure to a diversified portfolio of Real Estate Debt Investments and to provide Preference Shareholders with stable returns in the form of quarterly dividends.

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

Interest Rate Risk

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

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

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

The Company also invests in real estate loans. These can have fixed interest income and are therefore potentially exposed to the wider effects of changes in interest rates.

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

Currency Risk

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

The Company hedges its Euro exposure with a series of forward Euro sells and option hedges.

Liquidity Risk

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

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

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

Strategic Report (continued)

Internal Controls - Failure of A Key Service Provider

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

In compliance with principle 15 of the AIC Code, the Board regularly reviews the effectiveness of the Company's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from the Investment Manager to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Administrator provides compliance reports to the Board and also makes available its Global Fund Accounting and Custody Controls Examination, SSAE 16 report on an annual basis. The Board has also performed a specific assessment considering all significant aspects of internal control arising during the year. The Audit Committee assists the Board in discharging its review responsibilities.

Financial Highlights / Key Performance Indicators

RECI Key Financial Data	31 Mar 2016	31 Mar 2015
Gross Assets	£163.8m	£162.9m
Investment Portfolio	£152.8m	£146.5m
Cash	£5.3m	£8.1m
Operating Income	£17.7m	£15.8m
Fair Value (Losses)/Gains on Investment Portfolio	£(2.6)m	£5.7m
Net Profit	£8.5m	£13.8m
Number of Loans	17	15
Loans (drawn dirty FV*)	£115.3m	£89.9m
Weighted average life of Loan Portfolio	1.8years	2.8years
Weighted average LTV of Loan Portfolio	71.5%	67.1%
Weighted average yield of Loan Portfolio	12.4%	13.2%
Loan (commitments as a % of GAV)	73.2%	63%
Loans (commitments)	£119.6m	£101.9m
Number of Bonds	34	52
Bonds (dirty FV*)	£40.0m	£59.8m
Nominal Face Value of Bond Portfolio	£48.4m	£69.3m
Net Asset Value per RECI Ordinary Share	£1.632	£1.623

Share Price Performance
As at 31 March 2016 the NAV was £1.632 per Ordinary Share (31 March 2015: £1.623) and the share price was £1.620 per Ordinary Share (31 March 2015: £1.720).

Taking dividends into account, the NAV total return was 7.2% for the year ended 31 March 2016 and 12.3% for the year ended 31 March 2015.

*Dirty Fair Value ("FV") is the price of a loan including any accrued interest.

Investment Manager's Report

Loan Portfolio as at 31 March 2016

Significant loan portfolio growth
RECI increased its drawn real estate loan portfolio to £113 million from £87 million in the financial year ended 31 March 2016. During the year, the Company made £17 million of new commitments over four new deals, taking total loan commitments to £120 million as at 31 March 2016 (being 73% of GAV).

The average loan portfolio LTV exposure as at 31 March 2016 was 72% and the portfolio continues to provide attractive risk-adjusted returns with a weighted average yield of 12% per annum, before any back end fees or profit share contributions are taken into account.

Since 31 March 2016, the Company has funded a new commitment of £4.3m to a loan secured against a residential development in Clapham, London.

Expected loan investment repayments

The Company is expecting several loan repayments from its portfolio, with potential cash inflows in excess of £20m in the coming months.

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

Loan Portfolio Summary as at 31 March 2016

Number of loans	17
Drawn Dirty* Fair Value (£ millions)	115.3
Total Loan Commitments (£ millions)	119.6
Loans as % of GAV (drawn loan balance)	70.6%
Loans as a % of GAV (committed loan balance)	73.2%
Weighted average yield of loan portfolio	12.4%
Weighted average LTV of portfolio	71.5%
Weighted average life of portfolio (years)	1.8

* Dirty Fair Value includes accrued interest

Top 10 Investment Portfolio Exposures[1] as at 31 March 2016

Fair Value	£100.0 million
WA Original LTV[2]	65.2%
WA Cheyne Current LTV[2]	74.4%
WA Effective Yield[3]	12.0%

Type	Class	Collateral Description
Residential	Loan	Whole Loan secured against German multi-family properties
Commercial	Loan	Priority ranking shareholder loan against a portfolio of UK logistics and industrial properties
Commercial	Loan	Mezz loan secured on a fully let retail park in Essex
Commercial	Loan	Mezz loan secured against two mixed use estates in Central London
Residential	Loan	Mezz loan secured by residential land & homes under development in South East UK
Commercial	Loan	Subordinate loan secured against retirement villages in London and South-East
Commercial	Loan	Senior loan secured on a dominant shopping centre in a residential suburb of Berlin
Commercial	Loan	Mezz loan to assist in the acquisition of major German residential development company
Commercial	B	Bond secured against government housing portfolio in the UK
Commercial	Loan	Mezz loan secured against a branded London hotel development in Shoreditch

[1] Based on fair value of bonds and loans.
[2] The weighted average original loan to value has been calculated by reference to the original acquisition value of the relevant collateral as disclosed at the time of issue of the relevant bond or loan. The original LTV is weighted by the market value of the bonds and loans. The weighted average Cheyne current LTV has been calculated by the Investment Manager by reference to the current value ascribed to the collateral by the Investment Manager. In determining these values, the Investment Manager has undertaken its own internal valuation of the underlying collateral. Such valuations have not been subject to independent verification or review. WA LTV figures are calculated with original notional using pool factor and FX rate as at 31 March 2016.
[3] WA effective yield is based on the effective yield as at most recent purchase and is based on the Investment Manager's pricing assumptions and actual returns may differ materially WA effective yield is based on the effective yield as at most recent purchase and is based on the Investment Manager's pricing assumptions and actual returns may differ materially.

Investment Manager's Report (continued)

Real estate bond portfolio

As at 31 March 2016, the bond portfolio of 34 bonds was valued at £40.0 million, with a nominal face value of £48.4 million[4]. Taking both the positive recorded interest income (using effective yield accounting) and the fair value losses on the bonds in the half year, the total gross return of the bond portfolio (reportable segment profit) in the year ended 31 March 2016 was £2.1m (or approximately 4.2%). It is this lower than expected performance on the bond portfolio that contributed to the Company's overall net profit for the year ended 31 March 2016 being £8.5 million, compared with £13.8 million in the previous year ended 31 March 2015.

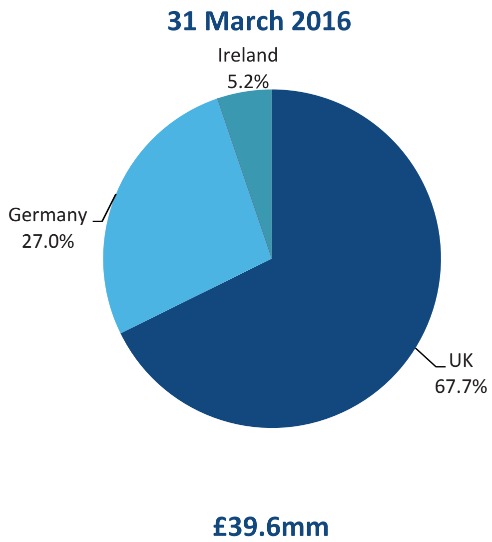
March marked the rebound for risk assets after a volatile February and one of the worst Januarys in history. The positive momentum which started around mid-February and continued through much of March resulted in a recovery of prices and activity. The ECB package announced in March exceeded expectations, helping to boost risk appetite and reinforce market sentiment. Whilst we consider the package to be very positive for European credit in general and for real estate in particular, the first quarter of 2016 will be categorised by, volatility and huge swings in asset prices that swathed the markets.

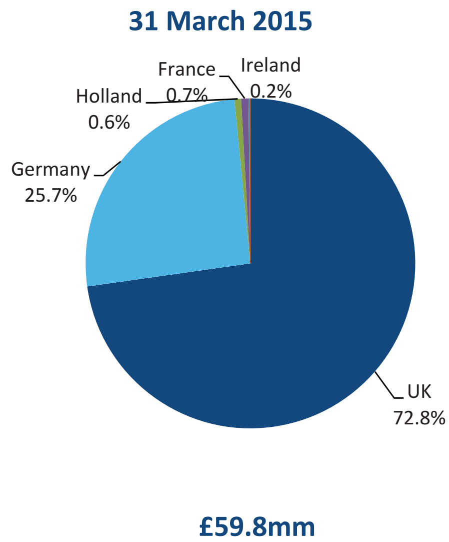
As at 31 May 2016, the portfolio consisted of 34 bonds with a fair value of £39.3 million and a nominal face value of £47.3 million[5].

Bond Portfolio Summary as at 31 March 2016	
Number of bonds	34
Fair Value of Bond Portfolio as at 30 September 2015 (£ millions)	40.0
Nominal Face Value of Bond Portfolio as at 30 September 2015 (£ millions)	48.4

Real Estate Bond Portfolio Breakdown

Breakdown of RECI's bond portfolio as at 31 March 2016 and 31 March 2015 by jurisdiction (by reference to underlying assets).





Monthly Bond Performance Summary as at 31 March 2016

	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016
% Fair Value Change	-0.10%	-0.17%	0.06%	-1.35%	-0.73%	0.07%
WA Purchase Price	-	-	-	-	-	97.9
WA Purchase Yield	-	-	-	-	-	4.4

[4] Cost and nominal shown are calculated with original notional using pool factor and FX rate as at 31 March 2016.
[5] Cost and nominal shown are calculated with original notional using pool factor and FX rate as at 31 May 2016.

Investment Manager's Report (continued)

Asset Class Distribution of Bond Portfolio by Fair Value as at 31 March 2016

Bond Class	UK CMBS	UK RMBS	Euro CMBS	Euro RMBS	Total	Total as at 31 March 2015
A	11.3%	0.0%	0.0%	0.0%	11.3%	10.4%
B	38.3%	0.0%	4.6%	0.0%	42.9%	44.8%
C	0.7%	0.0%	2.7%	0.0%	3.4%	7.4%
D	0.0%	1.0%	12.2%	0.3%	13.5%	11.7%
E and Below	8.3%	6.8%	13.8%	0.0%	28.9%	26.1%
Total	58.6%	7.8%	33.3%	0.3%	**100.0%**	**100%**
Total as at 31 March 2015	61.0%	11.5%	26.6%	0.9%		

Values may not sum to 100% due to rounding differences

Outlook

RECI's loan portfolio benefits from a number of attributes, with a focus on core Europe (UK and West Germany), combined with defensive capital characteristics and backed by well structured documentation. This has positioned the portfolio against recent volatility in European real estate markets.

The performance of the Company's bond portfolio remains supported by the amortisation and high coupon receipts, despite the relatively disappointing performance of the wider markets during the year ended 31 March 2016.

Ultimately, the long term performance of the bond portfolio will depend on the credit recovery from the underlying assets, and in this regard, the underlying asset performance backing the Company's bond portfolio remains resilient. The Investment Manager also remains well-placed to participate in new issue bonds at attractive yields.

The first quarter of 2016 saw significant market volatility across most asset classes and geographies. March has seen some improvement in sentiment. However, given the continued significant number of events and uncertainties in the global economy (UK Referendum, US elections, China's credit bubble, emerging market growth, European banks etc.), the Manager's view is that volatility is unlikely to abate anytime soon. Volatility in liquid markets and uncertainty have helped keep global rates low for the last five years. It is difficult to see a sustained catalyst that will cause rates to be pushed up significantly in the immediate future. In this environment, the real estate credit markets (for core, defensive assets with long term income generation capability) continue to benefit from the search for defensive yield generating asset classes and persistently low rates.

The Investment Manager's real estate debt team remains well resourced across 13 professionals and has plans to strengthen this further. Cheyne expects to continue to close more loan transactions in the coming months, and based on the Investment Manager's strong reputation of delivering financial solutions across the capital stack in innovative structures, at compelling pricing for both borrowers and investors.

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 March 2016.

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

The "About the Company" section of the Annual Report on page 3 provides information regarding the structure of the Company, the investment strategy and the listing details of the Shares of the Company.

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

Principal activity and business review
The principal activity of the Company during the year was that of an investment company investing in real estate debt investments. For full details of the investment policy of the Company see page 4.

Results and dividends
The results for the year and the Company's financial position at the end of the year are shown on pages 33 and 34. Dividends totalling £7,864,398 (31 March 2015: £7,864,398) were paid/declared on the Core Ordinary Shares during the year and £3,354,434 (31 March 2015: £3,354,434) were paid on the Core Preference Shares.

A final interim dividend for the year ended 31 March 2016 of 2.7p per Core Ordinary Share (31 March 2015: 2.7p per share) was approved by the Directors on 16 June 2016, and a special dividend of 0.8p per Core Ordinary Shares was also approved by the Directors on 16 June 2016 for the year ended 31 March 2016, neither of these have been included as a liability in these financial statements.

The Directors consider that the Company passed the solvency requirements under Guernsey law in relation to all distributions paid during the years ended 2016 and 2015.

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

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

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Incorporation and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid. With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Incorporation and The Companies (Guernsey) Law 2008. The Articles themselves may be amended by special resolution of the Shareholders. The powers of Directors are described in the Articles of Incorporation and in these financial statements in the Corporate Governance Statement. Under its Articles of Incorporation, the Company has authority to issue an unlimited number of Core Ordinary Shares of no par value.

Directors' Report (continued)

Board of Directors
The Directors of the Company who served during the year and to date were:

Bob Cowdell (Chairman) (appointed 1 June 2015)
Graham Harrison
Christopher Spencer
Mark Burton
John Hallam (appointed 21 March 2016)
Viscount Chandos (Chairman) (resigned 12 June 2015)
Talmai Morgan (resigned 11 August 2015)

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

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

Christopher Spencer (Guernsey resident). Mr Spencer qualified as a chartered accountant in London in 1975. Following two years in Bermuda he moved to Guernsey. Mr Spencer, who specialised in audit and fiduciary work, was Managing Partner/Director of Pannell Kerr Forster (Guernsey) Limited from 1990 until his retirement in May 2000. Mr Spencer sits on the AIC Offshore Committee and is a past President of the Guernsey Society of Chartered and Certified Accountants, and a past Chairman of the Guernsey Branch of the Institute of Directors. Mr Spencer sits on the board of directors of JPEL Private Equity Limited, SQN Asset Finance Income Fund Limited, Summit Germany Limited, John Laing Infrastructure Fund Limited and Ruffer Investment Company Limited, some of which are listed on the London Stock Exchange. Mr Spencer has been on the Board of the Company since inception.

Mark Burton (UK resident) has long experience of real estate lending and investing, having been Chief Investment Officer, Real Estate, at both Abu Dhabi Investment Authority and Abu Dhabi Investment Council, and Deputy General Manager, Head of Real Estate at United Bank of Kuwait. He is currently a member of the Real Estate Advisory Board of Norges Bank Investment Management, adviser to Citic Capital Real Estate, a non-executive director of Value Retail plc, a member of advisory Board of Green Oak Capital Advisory and non-executive Chairman of AEW UK REIT Plc. He was previously a non-executive director of London and Stamford Property and the Hudson's Bay Company and Retail Opportunity Investments Corp. Mr Burton has been on the Board of the Company since December 2013.

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

Directors' Report (continued)

Board of Directors (continued)

The Directors' interests (number of Ordinary and Preference Shares) in the share capital of the Company at 31 March 2016 (some of which are held directly or by entities in which the Directors may have a beneficial interest) were:

	Number of Ordinary Shares	% of Holding	Number of Preference Shares	% of Holding
Bob Cowdell (Chairman)	8,922	0.01	-	-
Graham Harrison	1,500	0.00	1,875	0.00
Christopher Spencer	1,500	0.00	1,875	0.00

Substantial interests in share capital
Chapter 5 of the Disclosure and Transparency Rules, requires disclosure of major shareholder acquisitions or disposals (over 5% of the shares) in the Company. During the year there were no notifications of such transactions (2015: there was 1 TR1 notification - BNY Mellon Trust and Depositary 3,588,000 shares). As at 31 March 2016, BNY Mellon is no longer holding over 5% of the shares of the Company.

Issued Share Capital
The issued share capital of the Core consists of 114,748,915 (31 March 2015: 114,748,915) shares, made up of 72,818,496 (31 March 2015: 72,818,496) Ordinary Shares and 41,930,419 (31 March 2015: 41,930,419) Preference Shares.

Directors and Officers Liability Insurance
Directors and Officers liability insurance is in place and due for renewal on 30 June 2016.

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

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

Auditor
Deloitte LLP has been the Company's external auditor since the Company's incorporation. This is its 11th period of audit. A resolution for the reappointment of Deloitte LLP will be provided at the next annual general meeting.

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

Directors' Report (continued)

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

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

Going concern
The Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements as, after due consideration, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. Regarding the on-going funding of the Company's Preference Shares, the Directors have taken into account the current cash balance, the forecast cash inflows and outflows from the investments and operating expenses. The Directors note the cash resources available at 31 March 2016 of £5.3 million, some of which will be used to pay the proposed dividends, are sufficient to cover normal operational costs and current liabilities as they fall due for the foreseeable future. The Directors have assessed the prospects of the Company for a period of three years as discussed in the Strategic Report on page 7 of these financial statements.

Annual General Meeting
The Annual General Meeting ("AGM") of the Company will be held at 10.30am on 16 September 2016. Details of the resolutions to be proposed at the AGM, together with explanations, will appear in the Notice of Meeting to be distributed to Shareholders together with a copy of this Annual Report.

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

On behalf of the Board on 16 June 2016

Director **Director**

Directors Remuneration Report

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

Each of the Directors have signed a letter of appointment with the Company setting out the terms of their appointment, which are available for inspection at the Company's registered office.

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

Directors annual fees are listed in the table below:

	Annual Fees GBP
Bob Cowdell (Chairman) (Appointed 1 June 2015)	60,000
Graham Harrison	30,000
Christopher Spencer*	35,000
Mark Burton	30,000
John Hallam (Appointed 21 March 2015)	30,000
Viscount Chandos (Chairman) (Resigned 12 June 2015)	80,000
Talmai Morgan (Resigned 11 August 2015)	30,000
	295,000

*During the year Christopher Spencer's annual fee of £30,000 was increased to £35,000 effective since September 2015 to reflect his role as Chair of the Audit Committee.

Amounts for the Directors' remuneration for the year ended 31 March 2016 were as follows:

	Year ended 31 Mar 2016 GBP	Year ended 31 Mar 2015 GBP
Bob Cowdell (Chairman) (Appointed 1 June 2015)	50,000	-
Graham Harrison	30,000	30,000
Christopher Spencer*	32,917	30,000
Mark Burton	30,000	30,000
John Hallam (Appointed 21 March 2016)	822	-
Viscount Chandos (Chairman) (Resigned 12 June 2015)	21,697	80,000
Talmai Morgan (Resigned 11 August 2015)	11,034	30,000
Total Directors' emoluments	176,470	200,000

Corporate Governance Statement

Statement of compliance with Corporate Governance
The Board of the Company recognise the importance of sound corporate governance. Currently, The UK Listing Authority requires all overseas companies with a “Premium Listing” (which includes the Company) to “comply or explain” against the UK Corporate Governance Code (the “Code”).

The Code of Corporate Governance issued by the Guernsey Financial Services Commission (“GFSC Code”) provides a framework that applies to all entities licensed by the GFSC or which are registered or authorised as a collective investment scheme under the Protection of Investors (Bailiwick of Guernsey) Law, 1987. Companies reporting against the UK Corporate Governance Code or the Association of Investment Companies Code of Corporate Governance are deemed to comply with the GFSC Code.

The Board of the Company has considered the principles and recommendations of the AIC Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for Investment Companies for Guernsey Domiciled member companies (AIC Guide) issued in February 2013.

The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to Shareholders.

Throughout the year ended 31 March 2016, the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code and AIC Code include provisions relating to:

- a remuneration committee;
- a management engagement committee;
- the role of the Chief Executive;
- Executive Directors’ remuneration; and
- the need for an Internal Audit Function.

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers some of these provisions are not relevant to the position of the Company, being an externally managed investment company. The Company has therefore either not explained further in respect of these provisions or provided detail if it is going to consider them in the future.

The obligations under the EU Company Reporting Directive which are implemented by Disclosure and Transparency Rule 7.2, apply to all issuers of equities from 6 April 2010. Under this rule, a company must:

(i) make a corporate governance statement in its annual report and accounts based on the code to which it is subject, or with which it voluntarily complies; and
(ii) describe its internal control and risk management arrangements.

Details of compliance or explanation of non-compliance are noted below.

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

The Board meets at least four times a year and, in addition, there is regular contact between the Board, the Investment Manager and the Administrator/Company Secretary. Further, the Board requires that it is supplied in a timely manner with information by the Investment Manager, the Company Secretary and other advisors in a form and of a quality appropriate to enable it to discharge its duties.

Corporate Governance Statement (continued)

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

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

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

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

The following table shows the number of regularly scheduled meetings held by the Board and each committee for the year ended 31 March 2016 as well as the number of attendances at each meeting.

	Scheduled Board Meetings	Nomination Committee Meeting Attendance	Audit Committee Meeting Attendance
Number of meetings	**4**	**4**	**2**
Attendance by;			
Board of Directors			
Bob Cowdell (Appointed 1 June 2015)	3	2	2
Graham Harrison	4	4	2
Christopher Spencer	4	4	2
Mark Burton	4	4	1
John Hallam (Appointed 21 March 2016)	-	-	-
Viscount Chandos (Resigned 12 June 2015)	2	1	1
Talmai Morgan (Resigned 11 August 2015)	2	2	1

Chairman
The Chairman, Mr Cowdell, is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. The Chairman is also responsible for ensuring that the Directors receive accurate, timely and clear information. The Chairman is responsible for effective communication with Shareholders. Mr Cowdell was appointed Director and Chairman of the Board on 1 June 2015 and 12 June 2015 respectively, replacing the outgoing Chairman Viscount Chandos.

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

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

The Board has not established a remuneration committee as the Company has no executive Directors or employees.

The Board has not established a management engagement committee as the Board undertakes the review of the contractual arrangements of the Company's service providers.

Audit Committee
The Audit Committee is chaired by Mr Spencer. Mr Cowdell, Mr Harrison and Mr Burton are also members of the Audit Committee (along with Mr Morgan until his resignation on 11 August 2015). Mr Hallam joined the committee on 8 June 2016. Only independent Directors serve on the Audit Committee and members of the Audit Committee have no links with the Company's external Auditor and are independent of the Investment Manager. The terms of reference state that the Audit Committee will meet not less than twice a year. The report of the role and activities of this committee and its relationship with the external auditor is contained in the Audit Committee Report.

Corporate Governance Statement (continued)

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

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

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

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

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

During the year ended 31 March 2016, the Company continued its programme of refreshing the Board. Bob Cowdell was appointed as a Non-Executive Director on 1 June 2015 and succeeded as Chairman on 12 July, when Viscount Chandos stood down. Talmai Morgan, who had served on the Board since launch, resigned on 11 August 2015. John Hallam was appointed as a Non- Executive Director on 21 March 2016. The Board regards all Directors as being fully independent. The Board has adopted a policy whereby all Directors will be proposed for re-election every year and so all Directors will be proposed for re-election at the forthcoming AGM.

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

In compliance with principle 15 of the AIC Code, the Board regularly reviews the effectiveness of the Company's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from the Investment Manager to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Board has also performed a specific assessment considering all significant aspects of internal control arising during the year covered by the report. Furthermore, the Board has engaged the Company's auditors to perform certain agreed upon procedures over the operational controls of the Investment Manager to supplement its overall effectiveness review over the controls related to the Company's principal risks. These procedures comprised obtaining evidence, on a sample basis, that controls over valuation and liquidity of the loans and bonds portfolio were being observed by the Investment Manager and that it also had business continuity plans in place. The Audit Committee assists the Board in discharging its review responsibilities.

During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

Investment management is provided by Cheyne Capital Management (UK) LLP. The Board is responsible for setting the overall investment policy and monitors the actions of the Investment Manager at regular Board meetings. Administration and company secretarial services are provided by State Street (Guernsey) Limited. Regular compliance reports from both the Investment Manager and the Administrator are received by the Board. In addition, the Administrator makes available its Global Fund Accounting and Custody Controls Examination, SSAE16 report to the Board on an annual basis.

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

Corporate Governance Statement (continued)

Internal controls (continued)

The Investment Manager has established an internal control infrastructure over the valuation of financial instruments that involves ongoing oversight by the pricing committee. These management control functions are segregated from the trading and investing functions. The Investment Manager employs resources to help ensure that the pricing committee is able to function at an appropriate level of quality and effectiveness. The Investment Manager reviews the segregation of duties within its internal control infrastructure.

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

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

While no formal committee has been appointed to consider the continuation of engagement of the relevant service providers, the whole Board reviews their performance. The Directors are satisfied that the continued appointment of the relevant service providers is in the best interests of the Shareholders and the Company.

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

Communication with Shareholders
The Company has appointed Liberum Capital Limited as corporate broker. Together with Liberum Capital Limited, the Investment Manager assists the Board in communicating with the Company's major Shareholders.

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

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

The 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. As part of this robust assessment, the Directors engaged Deloitte to perform a review of the controls in place with the Investment Manager which have been more fully described on page 21 under Internal Control.

The Company's significant financial reporting risk factors are fully discussed in the Audit Committee Report and in Note 14 of these financial statements.

The Company's risk factors are fully discussed in the Strategic Report of these financial statements and in the Company's prospectus, available on the Company's website (www.recreditinv.com) and should be reviewed by Shareholders.

Changes in Regulation
The Board monitors and responds to changes in regulation as it impacts the Company and its policies. Changes made to the Corporate Governance Code include the need for a viability statement and consideration that the accounts are fair, balanced and understandable. The Board also discussed the need for a robust assessment of internal controls and principal risks that could affect the Company. There were no other changes in regulation during the year ended 31 March 2016.

Audit Committee Report

The Audit Committee
The Audit Committee is chaired by Mr Spencer. The other members of the committee are Mr Morgan (until his resignation on 11 August 2015), Mr Cowdell, Mr Burton and Mr Harrison. Only independent Directors serve on the Audit Committee and members of the Audit Committee have no links with the Company's external Auditor and are independent of the Investment Manager. The terms of reference state that the Audit Committee will meet not less than twice a year and will meet the external Auditor at least once a year. The terms of reference include all matters indicated in the Disclosure and Transparency Rule 7.1 and the AIC Code.

The Board has taken note of the requirement that at least one member of the Committee should have recent and relevant financial experience and is satisfied that the Committee is properly constituted in that respect with all members being highly experienced and, in particular, the Chairman having a background as a chartered accountant.

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

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

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

Meetings
The Audit Committee meets at least twice annually, shortly before the Board meets to consider the Company's half-yearly and annual financial reports, and reports to the Board with its deliberations and recommendations and also has an annual planning meeting with the Auditor.

The Audit Committee operates within clearly defined terms of reference and provides a forum through which the Company's external auditors report to the Board. The Audit Committee receives information from the Company's service providers with the majority of information being directly sourced from the Secretary, Administrator and the external auditors. The terms of reference of the Audit Committee are available from the Company's registered office. The Audit Committee considers the nature, scope and results of the Auditor's work and reviews annually prior to providing a recommendation to the Board on the re-appointment or removal of the Auditor. When evaluating the external Auditor the Committee has regard to a variety of criteria including industry experience, independence, reasonableness of audit plan, ability to deliver constructive criticism, effectiveness of communication with the Board and the Company's service providers, quality control procedures, management of audit process and added value beyond assurance in audit opinion.

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

See the Strategic Report and Note 14 for additional information regarding principal risks and uncertainties.

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

Valuation of Portfolio
With regards to the bond investments, the Audit Committee has considered the pricing source, validity of the liquidity profile and the cash received from sale versus the amount attributed as fair value. The Committee found that the assumptions used were reasonable and the valuations had been recognised in line with the requirements of the International Financial Reporting Standards ("IFRS").

Audit Committee Report (continued)

Significant issues considered over financial reporting (continued)

Valuation of Portfolio (continued)
With regards to the real estate loan investments the Audit Committee has considered and challenged the Investment Manager regarding the projected effective yields, the stated credit quality of the borrower and the quality of the underlying collateral. The Committee found that the assumptions used were reasonable and the valuations had been recognised in line with the requirements of the IFRS.

Income Recognition
The Audit Committee and the Board as a whole regularly considered and challenged the Investment Manager's expected realisation or maturity dates and the resultant expected cash flows. The Committee found that the assumptions used were reasonable and that whilst there is an on-going risk that the expected realisation or maturity dates may be misstated in the future, the Committee and the Board are satisfied that the dates attributed during the year and the Investment Manager's methods of calculating them are reasonable and in line with IFRS.

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

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

External Audit
Deloitte LLP has been the Company's external Auditor since the Company's inception. This is the 11th period of audit.

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

David Becker has been appointed lead audit partner for the year ended 31 March 2016. Prior to this, John Clacy was lead audit partner and had served in that capacity since 2011. The Audit Committee has recommended to the Board that the re-appointment of Deloitte LLP as the Company's external auditors be proposed to Shareholders at the 2016 Annual General Meeting. The Audit Committee will consider arranging for the external audit contract to be tendered in due course with the aim of ensuring a continuing high quality and effective audit.

The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor, with particular regard to the level of non-audit fees. During the year, Deloitte LLP was engaged to analyse the Company's retention test under the NMPI rules and to carry out audit assurance work. The cost of this work being £4,000 for NMPI and £3,000 for audit assurance work carried out for the year ended 31 March 2016.

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

- tax work is carried out by teams independent of the audit team and ethical walls ensure that no employee works in both teams; and
- review and challenge of key decisions by the Engagement Quality Review Partner and engagement quality control review by a member of the Independent Professional Standard Review Team.

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

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

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

Audit Committee Report (continued)

External Audit (continued)
To assess the effectiveness of the Auditor and the audit process, the Committee reviews:

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

The Audit Committee is satisfied with the audit process and Deloitte LLP’s effectiveness and independence as an Auditor having considered the degree of diligence and professional scepticism demonstrated by them. Having carried out the review described above and having satisfied itself that the Auditor remains independent and effective, the Audit Committee has recommended to the Board that Deloitte LLP be reappointed as Auditor for the year ending 31 March 2017.

On behalf of the Audit Committee

Christopher Spencer
Chairman of the Audit Committee

16 June 2016

Directors' Responsibility Statement

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law 2008. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' Responsibility Statement (continued)

We confirm that to the best of our knowledge:

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

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

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

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

By order of the Board

Director **Director**

16 June 2016

Independent Auditor's report to the members of Real Estate Credit Investments PCC Limited (the "Company")

Opinion on financial statements of Real Estate Credit Investments PCC Limited (the "Company")

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

The financial statements comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, and the Statement of Cash Flows, and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as issued by the IASB.

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

We have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 2 to the financial statements and the directors' statement on the longer-term viability of the Company contained within the strategic report on page 7.

We have nothing material to add or draw attention to in relation to:

- the directors' confirmation on page 23 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 7 to 10 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the directors' explanation on page 7 as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Company and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

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

Independent Auditor's report to the members of Real Estate Credit Investments PCC Limited (the "Company") (continued)

Risk	How the scope of our audit responded to the risk
Valuation of investments in Bonds and Loans portfolios Investments in Bonds and Loans of £152.8m make up 93.3% of total assets and are the key value driver for the Company's Net Asset Value (NAV) and interest income. As described in Notes 2, 3 and 14 to the financial statements, judgements over the liquidity profile of the Bonds, credit quality of the borrower and underlying collateral in respect of the Loans, which impact fair value estimates could significantly affect these key performance indicators.	We tested the design and implementation of key controls relating to the investment valuation process. We evaluated and challenged management's valuation methodology of the Company's investments. Our procedures in respect of the Bonds included: • obtaining independent prices of the investments held within the Bond Portfolio; • independently verifying the liquidity profile of the Bond Portfolio for their classification in the Fair Value Hierarchy; and • verifying any proceeds received from the sale of investments within the Bond Portfolio, both during the year and subsequent to 31 March 2016, against their fair value recognised prior to sale. Our procedures in respect of the Loans included: • evaluating the effective yields on the portfolio against current market rates for similar portfolios with similar characteristics; • reviewing the credit quality of the borrower and other financial information available to assess the ability of the borrower to meet future payment commitments of both interest and principle; • reviewing the performance and credit quality of the underlying collateral, including a review of the latest independent valuations, and consulting with our Real Estate specialists where appropriate in respect of market yields and specific characteristics of the properties which are awaiting planning consent and / or being redeveloped; and • consulting with our Debt Advisory specialists on current market rates.
Interest income recognised from investments As described in Note 2 to the financial statements, the portfolios' expected realisation or maturity profile and expected cash flows are key inputs in arriving at the effective interest rate used to recognise interest income over the expected life of the portfolio, and these judgements may have a significant impact on the level of interest income recorded in the year.	Our procedures included: • testing the design and implementation of key controls relating to income recognition; • for new investments acquired, recalculating the effective interest rate on a sample basis, which included independently verifying the Investment Manager's assumptions on the expected realisation or maturity dates against the prospectus of the underlying positions; and • for existing investments, recalculating interest income on a sample basis using the effective interest rate determined on the date acquired, which have been independently audited previously.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 24 and 25.
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's report to the members of Real Estate Credit Investments PCC Limited (the "Company") (continued)

Our application of materiality

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

We determined materiality for the company to be £3.2m (2015: £3.2m), having regard for the Net Asset Value and Preference Share liability of the Company as this represents total shareholders' interest. This approximates to 2.7% (2015: 2.7%) of the Company's Net Asset Value.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £65,000 (2015: £64,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

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

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

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Independent Auditor's report to the members of Real Estate Credit Investments PCC Limited (the "Company") (continued)

Respective responsibilities of directors and auditor

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

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

Scope of the audit of the financial statements

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

David Becker
for and on behalf of Deloitte LLP
Chartered Accountants and Recognised Auditors
St Peter Port, Guernsey

16 June 2016

Statement of Comprehensive Income
For the year ended 31 March 2016

	Note	RECI Core 31 Mar 2016 GBP	RECI Core 31 Mar 2015 GBP
Interest income	6	17,705,838	15,849,467
Net (losses)/gains on financial assets and liabilities at fair value through profit or loss	4	(2,564,470)	5,708,663
		15,141,368	21,558,130
Operating expenses	5	(3,138,734)	(4,240,387)
Profit before finance costs		12,002,634	17,317,743
Finance costs	6	(3,464,988)	(3,520,488)
Net profit		**8,537,646**	**13,797,255**
Profit per Ordinary Share			
Basic	8	£0.12	£0.19
Diluted	8	£0.12	£0.19
Weighted average Ordinary Shares outstanding		**Number**	**Number**
Basic	8	72,818,496	72,818,496
Diluted	8	72,818,496	72,818,496

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

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

Statement of Financial Position
As at 31 March 2016

	Note	RECI Core 31 Mar 2016 GBP	RECI Core 31 Mar 2015 GBP
Non-current assets			
Investments at fair value through profit or loss	9	152,798,075	146,533,667
		152,798,075	146,533,667
Current assets			
Cash and cash equivalents	9	5,345,668	8,091,170
Derivative financial assets - options held for trading	9	3,166,897	4,815,213
Derivative financial assets - unrealised gain on forward foreign exchange contracts	9	-	3,454
Other assets	11	2,527,759	3,483,793
		11,040,324	16,393,630
Total assets		**163,838,399**	**162,927,297**
Equity and liabilities			
Equity			
Reserves		118,821,280	118,148,032
		118,821,280	118,148,032
Current liabilities			
Derivative financial liabilities - unrealised loss on forward foreign currency exchange contracts	9	495,909	468,791
Other liabilities	9,12	2,680,682	2,580,500
		3,176,591	3,049,291
Non-current liabilities			
Preference Shares	13	41,840,528	41,729,974
Total liabilities		45,017,119	44,779,265
Total equity and liabilities		**163,838,399**	**162,927,297**
Shares outstanding	13	72,818,496	72,818,496
Net asset value per share		£1.632	£1.623

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

Signed on behalf of the Board of Directors by:

Director **Director**

16 June 2016

Statement of Changes in Equity
For the year ended 31 March 2016

	Note	RECI Core GBP
Balance at 31 March 2015		118,148,032
Net profit for the year		8,537,646
Distribution to the Ordinary Shareholders of the Company	7	(7,864,398)
Balance at 31 March 2016		**118,821,280**

For the year ended 31 March 2015

	Note	RECI Core GBP
Balance at 31 March 2014		112,215,175
Net profit for the year		13,797,255
Distribution to the Ordinary Shareholders of the Company	7	(7,864,398)
Balance at 31 March 2015		**118,148,032**

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

Statement of Cash Flows
For the year ended 31 March 2016

	RECI Core 31 Mar 2016 GBP	RECI Core 31 Mar 2015 GBP
Profit before finance costs	12,002,634	17,317,743
Movement in investments at fair value through profit or loss	(6,264,408)	(13,016,716)
Movement in financial derivative instruments	1,678,888	(3,029,148)
Operating cash flows before movement in working capital	**7,417,114**	**1,271,879**
Decrease/(increase) in receivables	956,034	(213,605)
Increase/(decrease) in payables	100,182	(94,909)
Movement in working capital	**1,056,216**	**(308,514)**
Net cash inflow from operating activities	**8,473,330**	**963,365**
Financing activities		
Distributions paid to Ordinary Shareholders	(7,864,398)	(7,864,398)
Preference dividends paid	(3,354,434)	(3,354,434)
Net cash outflow from financing activities	**(11,218,832)**	**(11,218,832)**
Net decrease in cash and cash equivalents	(2,745,502)	(10,255,467)
Cash and cash equivalents at the start of the year	8,091,170	18,346,637
Cash and cash equivalents at end of year	**5,345,668**	**8,091,170**

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

Notes to the Financial Statements
For the year ended 31 March 2016

1. General information

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

The Company is an authorised closed-ended protected cell company, being a cellular company governed by the Companies (Guernsey) Law 2008, comprising a core segment (the "Core" or "RECI") which has its own portfolio of assets, investment objective and sub-section of the Company's Investment Policy.

The Company had a Cell segment, known as 'European Residual Income Investments Cell' or "ERII". The final Residual Income Position was realised in January 2016 and the remaining residual cash distributed to the Cell shareholders. Following this the Cell ceased to exist. It is the Board's intention to seek approval from the Shareholders at the AGM in September 2016 to simplify the Company's ongoing capital structure and remove all references to the Cell from the Company's Articles of Association and delete the reference to "PCC" (ie. protected cell company) from the Company's name.

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

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

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

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

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

The Company has no ownership interest in the Investment Manager. State Street (Guernsey) Limited is the Administrator and provides all administration and secretarial services to the Company in this capacity.

2. Significant accounting policies

Statement of compliance
The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect, together with applicable legal and regulatory requirements of Guernsey Law and the Listing Rules of the UK Listing Authority. The same accounting policies, presentation and methods of computation have been followed in these financial statements as were applied in the preparation of the Company's audited financial statements for the year ended 31 March 2015.

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

		Effective for periods beginning on or after
IFRS 9	Financial Instruments	1 January 18
IFRS 15	Revenue from Contracts with Customers*	1 January 18
IFRS 16	Leases**	1 January 19

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

2. Significant accounting policies (continued)

Revised and amended standards in issue but not yet effective

IFRS 7	Financial Instruments Disclosures: Amendments resulting from September 2014 annual improvements to IFRS's	1 January 18
IFRS 10	Investment Entities: Amendments regarding the application of the Consolidation Exception	1 January 18
IFRS 11	Joint Arrangements: Amendments regarding the accounting for acquisitions of an interest in a joint operation	1 January 16
IFRS 12	Disclosure of Interest in Other Entities: Amendments regarding the application of the consolidation exemption	1 January 16
IAS 28	Investment Entities: Amendments regarding the application of the Consolidation Exception	1 January 16
IAS 1	Disclosure Initiative: Amendments to clarify IAS 1 presentation of financial statements to address impediments to preparers exercising their judgement in presenting their annual report	1 January 16
IAS 38	Intangible Assets: Amendments regarding the clarification of acceptable methods of description and amortisation	1 January 16

*The IASB deferred the effective date of IFRS 15 to 1 January 2018.
**Early application of IFRS 16 is permitted only if the entity adopts IFRS 15

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

Going Concern
The Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements as, after due consideration, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. Regarding the ongoing funding of the Company's Preference Shares, the Directors have taken into account the current cash balance, the forecast cash inflows and outflows from the investments and operating expenses.

The Directors note the cash resources available at 31 March 2016 of £5.3m, some of which will be used to pay the proposed dividend, are sufficient to cover normal operational costs and current liabilities as they fall due for the foreseeable future.

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

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

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

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

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

2. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

The Preference Shares have been classified as non-current liabilities in these financial statements. The amortisation of the Preference Shares are treated as a finance cost through the Statement of Comprehensive Income. The Preference Shareholders are entitled to a Preference Dividend equal to 8% per annum of the Preference Share Notional Value. The Preference Dividends are accrued at each valuation point and paid quarterly. Dividends owing to Preference Shareholders are shown as a finance cost in the Statement of Comprehensive Income on an accruals basis.

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

2. Significant accounting policies (continued)

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

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

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

Functional and presentation currency
The functional and presentation currency of the Company is GBP (£). The functional currency of the Company best represents the economic environment in which it operates.

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

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

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

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

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

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

Liabilities relating to uncertain tax positions are accrued only when such liabilities are probable and can be estimated with reasonable accuracy.

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

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

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

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

2. Significant accounting policies (continued)

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

Segment information
The Company has two reportable segments, being the Bond Portfolio and the Loan Portfolio. The real estate debt investment strategy of the Company focuses on secured residential and commercial debt in the UK and Western Europe. Each segment engages in separate business activities and the results of each segment are regularly reviewed by the Board of Directors who fulfils the role of Chief Operating Decision Maker for performance assessment purposes. There was a change in operating segments from that which was reported in the annual financial statements for the year ended 31 March 2015, whereby the Company's two reportable segments were the Core and the Cell.

3. Critical accounting judgements and key sources of estimation uncertainty

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

Valuation of investments
In accordance with the Company's accounting policies, the fair value of financial assets is based on quoted prices where such prices are available from a third party in a liquid market. With the exception of one investment, which was held at a fair value of EUR Nil since the inception of the Cell, until its realisation in January 2016, all of the investments in the Cell were sold during the year ended 31 March 2015.

Mortgage Backed Securities held in the Core are valued using independent market prices (supplied by Markit).

The Core has made loans into structures to gain exposure to real estate secured debt in the UK, Ireland, France and Germany. These loans are not traded in an active market and there are no independent quotes available for these loans. The fair values of financial instruments that are not traded in an active market are determined using valuation techniques (such as modelling). The fair value of these loans are linked directly to the value of the real estate loans the underlying structures invest in, which are determined based on modelled expected cash flows (drawdown principal and interest repayments, and maturity dates) with effective yields ranging from 8% to 26%. Adjustments in the fair value of the real estate loans are considered in light of changes in the credit quality of the borrower and underlying property collateral, and changes in the market rate on similar instruments. On origination of the loan, the Investment Manager performs due diligence on the borrower and related security/property. This includes obtaining a valuation of the underlying property (to assess loan-to-value of the investment). In most instances the terms of the loan require periodic re-valuation of the underlying property to check against loan-to-value covenants.

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

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

	RECI Core 31 Mar 2016 GBP	RECI Core 31 Mar 2015 GBP
Net gains/(losses)		
Net gains/(losses) on investments at fair value through profit or loss	4,715,306	(100,148)
Net losses on credit default swaps	-	(158,264)
Net (losses)/gains on options	(1,648,316)	3,321,942
Net (losses)/gains on foreign exchange instruments and other foreign currency transactions	(5,631,460)	2,645,133
Net (losses)/gains	**(2,564,470)**	**5,708,663**

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

5. Operating expenses

	RECI Core 31 Mar 2016 GBP	RECI Core 31 Mar 2015 GBP
Investment management, Depositary and administration fees		
Investment management fee	2,031,752	1,985,416
Performance fee	195,358	1,431,773
Administration fee	137,882	114,655
Depositary fee	55,200	49,015
	2,420,192	**3,580,859**
Other operating expenses		
Audit fees	80,000	40,001
Directors fees	178,798	168,671
Legal fees	170,000	186,003
Other expenses	289,744	264,853
	718,542	**659,528**
Total operating expenses	**3,138,734**	**4,240,387**

6. Interest income and finance income and costs

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

	RECI Core 31 Mar 2016 GBP	RECI Core 31 Mar 2015 GBP
Interest income		
Investments designated at fair value through profit or loss upon initial recognition:		
Real Estate Debt Investments - Bonds	4,700,366	6,386,092
Real Estate Debt Investments - Loans	12,939,367	9,450,245
Receivables (including cash and cash equivalents)	66,105	13,130
Total interest income	**17,705,838**	**15,849,467**
Finance costs:		
Preference Shares issuance expense amortised	(110,554)	(166,054)
Dividend paid to Preference Shareholders	(3,354,434)	(3,354,434)
Total finance costs	**(3,464,988)**	**(3,520,488)**

At 31 March 2016, there is £89,891 of capitalised Preference Shares issuance expenses (31 March 2015: £200,445).

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

7. Dividends

	RECI Core 31 Mar 2016 GBP	RECI Core 31 Mar 2015 GBP
Ordinary Share Dividends		
Fourth dividend for the year ended 31 March 2015/31 March 2014	1,966,099	1,966,099
First dividend for the year ended 31 March 2016/31 March 2015	1,966,100	1,966,100
Second dividend for the year ended 31 March 2016/31 March 2015	1,966,100	1,966,100
Third dividend for the year ended 31 March 2016 /31 March 2015	1,966,099	1,966,099
Amounts recognised as distributions to Ordinary Equity Holders in the year	**7,864,398**	**7,864,398**

	RECI Core 31 Mar 2016 GBP/Share	RECI Core 31 Mar 2015 GBP/Share
Dividends per Share		
Fourth dividend for the year ended 31 March 2015/31 March 2014	0.027	0.027
First dividend for the year ended 31 March 2016/31 March 2015	0.027	0.027
Second dividend for the year ended 31 March 2016/31 March 2015	0.027	0.027
Third dividend for the year ended 31 March 2016/31 March 2015	0.027	0.027
Amounts recognised as distributions to Ordinary Equity Holders in the year	**0.108**	**0.108**

Preference Share Dividends

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

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

For the year ended 31 March 2015:	**Payment Date**	**31 Mar 2015 GBP**
Preference Share Dividends		
Period 1 April 2014 to 30 June 2014	30 Jun 14	838,609
Period 1 July 2014 to 30 September 2014	30 Sep 14	838,609
Period 1 October 2014 to 31 December 2014	31 Dec 14	838,608
Period 1 January 2015 to 31 March 2015	31 Mar 15	838,608
Total distributions to Preference Shareholders		**3,354,434**

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

The Directors considered that the Company passed the solvency test for each dividend payment during the years ended 31 March 2016 and 31 March 2015.

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

8. Profit per Ordinary Share

	RECI Core 31 Mar 2016 GBP	RECI Core 31 Mar 2015 GBP
The calculation of the basic and diluted earnings per share is based on the following data:		
Profit for the purposes of basic earnings per share being net profit attributable to equity holders	8,537,646	13,797,255
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	72,818,496	72,818,496
Effect of dilutive potential Ordinary Shares:		
Share options	-	-
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	**72,818,496**	**72,818,496**

The Investment Manager Options have lapsed as noted in Note 17 and so the effect of dilutive potential Ordinary Shares does not apply for the year ending 31 March 2016. There was no dilution as at 31 March 2015 as the share price was below the option price (see Note 17) on that date.

9. Categories of financial instruments

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

	RECI Core 31 Mar 2016 GBP	RECI Core 31 Mar 2015 GBP
Assets		
Financial assets designated at fair value through profit or loss:		
Real Estate Debt Investments – bonds	39,555,818	59,441,393
Real Estate Debt Investments – loans	113,242,257	87,092,274
Investments at fair value through profit or loss	152,798,075	146,533,667
Derivative financial assets held for trading		
Call and put options	3,166,897	4,815,213
Forward foreign exchange contracts	-	3,454
Loans and receivables:		
Cash and cash equivalents	5,345,668	8,091,170
Other assets	2,527,759	3,483,793
Total assets	**163,838,399**	**162,927,297**
Liabilities		
Derivative financial liabilities held for trading		
Forward foreign exchange contracts	495,909	468,791
Liabilities held at amortised cost:		
Other liabilities	2,680,682	2,580,500
Preference Shares	41,840,528	41,729,974
Total liabilities	**45,017,119**	**44,779,265**

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

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

10. Derivative Contracts

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

Counterparty	Expiration	Description	Currency	Notional Amount	Strike price	Fair Value GBP
Options purchased						
Goldman Sachs	30 Jun 17	EUR Put GBP Call	GBP	30,432,500	0.870	3,166,897
Options purchased at fair value						3,166,897

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

Counterparty	Settlement Date	Buy currency	Buy amount	Sell currency	Sell amount	Unrealised Gain/(Loss) GBP
Goldman Sachs	20 Jun 16	GBP	31,682,340	EUR	40,500,000	(495,909)
Unrealised loss on forward foreign exchange contracts						(495,909)

Options:
The following options contracts were open as at 31 March 2015:

Counterparty	Expiration	Description	Currency	Notional Amount	Strike price	Fair Value GBP
Options purchased						
Goldman Sachs	30 Jun 17	EUR Put GBP Call	GBP	30,432,500	0.870	4,815,213
Options purchased at fair value						4,815,213

11. Other assets

	RECI Core 31 Mar 2016 GBP	RECI Core 31 Mar 2015 GBP
Bond interest receivable	415,450	673,932
Loan income receivable	2,106,534	2,804,086
Other receivables	5,775	5,775
	2,527,759	**3,483,793**

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

12. Other liabilities

	RECI Core 31 Mar 2016 GBP	RECI Core 31 Mar 2015 GBP
Investment management, Depositary and Administration fees payable		
Investment management fee payable	172,100	171,649
Performance fee payable	1,627,132	1,431,773
Administration fee payable	11,942	30,858
Depositary fee payable	36,854	13,997
Other expense accruals	832,654	932,223
Total liabilities	**2,680,682**	**2,580,500**

13. Share capital

The capital structure of the Company consists of Preference Shares and equity attributable to equity holders of Ordinary Shares, comprising issued share capital and reserves, as disclosed in the Statement of Financial Position. The issued share capital of the Company consists of Ordinary Shares and Preference Shares. The Company's capital managed as at the year end is represented by the value of the shares issued to date. The Company does not have any externally imposed capital requirements. At 31 March 2016 the Company had capital of £118,821,280 (31 March 2015: £118,399,124).

Authorised Share Capital	31 Mar 2016 Number of Shares	31 Mar 2015 Number of Shares
Core Ordinary Shares of no par value each	Unlimited	Unlimited
Preference Share at par	44,962,834	44,962,834

Core Ordinary Shares Issued and fully paid	31 March 2016 Number of Shares	31 March 2015 Number of Shares
Balance at start of the year	72,818,496	72,818,496
Ordinary Shares issued during the year	-	-
Balance at end of the year	**72,818,496**	**72,818,496**

No Ordinary Shares were bought back or cancelled during the year ended 31 March 2016 or during the year ended 31 March 2015.

Preference Shares Issued and fully paid	31 Mar 2016 Number of Preference Shares	31 Mar 2016 GBP	31 Mar 2015 Number of Preference Shares	31 Mar 2015 GBP
Preference Shares at start of year	41,930,419	41,729,974	41,930,419	41,563,920
Amortised issue costs allocated to Preference Shares	-	110,554	-	166,054
Balance at end of year	**41,930,419**	**41,840,528**	**41,930,419**	**41,729,974**

The value of the Preference Shares represents an obligation on the Company to pay the Preference Shares par value on winding up of the Company or on redemption of the Preference Shares in accordance with their terms. The Preference Shares are due to be redeemed on 17 September 2017.

At 31 March 2016, 41,930,419 Preference Shares were in issue with a par value of £1 per share (31 March 2015: 41,930,419 Preference Shares). All issued Shares are fully paid.

The holders of Preference Shares are entitled to receive dividends of 8% per annum of the Preference Share Notional Value. Preference Shares do not carry the right to vote. The holders of the Preference Shares participate only to the extent of the face value of the shares. The Preference Shares are classified as liabilities.

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

13. Share capital (continued)

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

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

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

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

d) if not redeemed earlier pursuant to paragraphs (a), (b) or (c) above, on a date that is seven years after their issue being 17 September 2017, at the Repayment Amount.

14. Financial Instruments and associated risks

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

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

(a) Market risk

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

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

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

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

(i) Currency risk

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

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

The Core has elected to hedge its foreign exchange exposure through a mixture of currency options and forward foreign currency exchange contracts. These instruments are detailed in Note 10.

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

14. Financial Instruments and associated risks (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

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

As at 31 March 2016:

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

As at 31 March 2015:

Core	Net currency exposure (in GBP)	Monetary Assets (in GBP)	Non-Monetary Assets (in GBP)	Monetary Liabilities (in GBP)	Non-Monetary Liabilities (in GBP)	Forward FX Contracts GBP
GBP	93,419,774	53,900,160	58,967,464	(41,729,974)	(2,580,500)	24,862,624
EUR	24,708,520	18,427,878	31,608,603	-	-	(25,327,961)
USD	19,738	19,738	-	-	-	-
	118,148,032	**72,347,776**	**90,576,067**	**(41,729,974)**	**(2,580,500)**	**(465,337)**

At 31 March 2016, had the GBP strengthened by 5% in relation to all currency exposure of the Company with all other variables held constant (and not taking into account any currency hedges that were in place at year end), equity of the Company and the net profit/(loss) per the Statement of Comprehensive Income would have changed by the amounts shown below. The analysis is performed on the same basis for 2015.

	RECI Core 31 Mar 2016 GBP	RECI Core 31 Mar 2015 GBP
EUR	(1,756,820)	(1,176,596)
GBP	N/A	N/A
USD	(1,460)	(940)
Total	**(1,758,280)**	**(1,177,536)**

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

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

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

14. Financial Instruments and associated risks (continued)

(a) Market risk (continued)

(ii) Interest rate risk

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

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

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

Should interest rates rise by 1.00% (100 basis points) in relation to the fixed rate securities held by the Company, the estimated impact on the net asset value of the Company is a decrease of £2,877,902 (31 March 2015: £3,925,842). A decrease in interest rates by 100 basis points is estimated to result in an increase in the net asset value of the Company by a similar amount. These estimates are calculated based on the fair value of the fixed rate securities including accrued interest held by the Company at 31 March 2016 and their weighted average lives. A fundamental principle of bond investing is that market interest rates and bond prices generally move in opposite directions. When market interest rates rise, prices of fixed-rate bonds fall.

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

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

	Fixed 31 Mar 2016 GBP	Floating 31 Mar 2016 GBP	Non-interest bearing 31 Mar 2016 GBP
Investments at fair value through profit or loss	126,693,708	26,104,367	-
Derivative financial assets			
- Options	-	-	3,166,897
Other assets	-	-	2,527,759
Cash and cash equivalents	-	5,345,668	-
Preference shares	(41,840,528)	-	-
Derivative financial liabilities			
- Forward foreign exchange contracts	-	-	(495,909)
Other liabilities	-	-	(2,680,682)
Total	**84,853,180**	**31,450,035**	**2,518,065**

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

14. Financial Instruments and associated risks (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

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

	Net Assets 31 Mar 2016 GBP	Within one year 31 Mar 2016 GBP	One to five years 31 Mar 2016 GBP	Over five years 31 Mar 2016 GBP
Investments at fair value through profit or loss	152,798,075	26,104,367	6,388,385	120,305,323
Derivative financial assets				
- Options	3,166,897	-	3,166,897	-
Other assets	2,527,759	2,527,759	-	-
Cash and cash equivalents	5,345,668	5,345,668	-	-
Preference shares	(41,840,528)	-	(41,840,528)	-
Derivative financial liabilities				
- Forward foreign exchange contracts	(495,909)	(495,909)	-	-
Other liabilities	(2,680,682)	(2,680,682)	-	-
Net Assets	**118,821,280**	**30,801,203**	**(32,285,246)**	**120,305,323**

The interest rate profile of the Company at 31 March 2015 was as follows:

	Fixed 31 Mar 2015 GBP	Floating 31 Mar 2015 GBP	Non-interest bearing 31 Mar 2015 GBP
Investments at fair value through profit or loss	124,839,695	21,693,972	-
Derivative financial assets			
- Options	-	-	4,815,213
- Forward foreign exchange contracts	-	-	3,454
Other assets	-	-	3,483,793
Cash and cash equivalents	-	8,091,170	-
Preference shares	(41,729,974)	-	-
Derivative financial liabilities			
- Forward foreign exchange contracts	-	-	(468,791)
Other liabilities	-	-	(2,580,500)
Total	**83,109,721**	**29,785,142**	**5,253,169**

The maturity profile of the Company at 31 March 2015 was as follows:

	Net Assets 31 Mar 2015 GBP	Within one year 31 Mar 2015 GBP	One to five years 31 Mar 2015 GBP	Over five years 31 Mar 2015 GBP
Investments at fair value through profit or loss	146,533,667	974,754	26,201,787	119,357,126
Derivative financial assets				
-Options	4,815,213	-	4,815,213	-
-Forward foreign exchange contracts	3,454	3,454	-	-
Cash and cash equivalents	8,091,170	8,091,170	-	-
Other assets	3,483,793	3,483,793	-	-
Preference shares	(41,729,974)	-	(41,729,974)	-
Derivative financial liabilities				
-Forward foreign exchange contracts	(468,791)	(468,791)	-	-
Other liabilities	(2,580,500)	(2,580,500)	-	-
Net Assets	**118,148,032**	**9,503,880**	**(10,712,974)**	**119,357,126**

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

14. Financial instruments and associated risks (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

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

(b) Credit risk

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

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

	RECI Core 31 Mar 2016 GBP	RECI Core 31 Mar 2015 GBP
Cash and cash equivalents	5,345,668	8,091,170
Derivative financial assets		
- Options	3,166,897	4,815,213
- Forward foreign exchange contracts	-	3,454
Total	**8,512,565**	**12,909,837**

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

The following table summarises the asset class distribution of the bond portfolio at 31 March 2016 and 31 March 2015:

Bond class*	31 Mar 2016 GBP million	31 Mar 2016 % of portfolio	31 Mar 2015 GBP million	31 Mar 2015 % of portfolio
A	4.5m	11.4%	6.1m	10.2%
B	17.1m	43.3%	26.8m	45.0%
C	1.4m	3.4%	4.4m	7.4%
D	5.4m	13.7%	7.0m	11.8%
E and Below	11.1m	28.2%	15.2m	25.6%
Total	**39.5m**	**100%**	**59.5m**	**100%**

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

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

14. Financial instruments and associated risks (continued)

(b) Credit risk (continued)

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

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

The Company has made further investments of approximately £54.3 million in various loan positions bringing the total principal invested in loans during the year to £111,619,804. The Core's total investment in loans at 31 March 2016, amounted to £113,242,257 which includes any interest accrued on loans at this date (31 March 2015; £87,092,274).

Derivative contracts
The Company also has credit exposure in relation to its derivative contracts. The Company was invested in derivative contracts with Goldman Sachs at 31 March 2016 and at 31 March 2015 with the following credit rating according to Standard and Poor's and credit quality:

	31 Mar 2016 Rating	31 Mar 2015 Rating	31 Mar 2016 GBP	31 Mar 2015 GBP
Goldman Sachs	A	A	3,166,897	4,815,213

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

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

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

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

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

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

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

14. Financial instruments and associated risks (continued)

(b) Credit risk (continued)

Derivative contracts (continued)
Below are the derivative assets and liabilities by counterparty and details of the collateral received and pledged by Company as at 31 March 2015:

Derivative Type	Counterparty	Value of derivative assets GBP	Collateral received GBP	Collateral Pledged GBP	Net (if greater than zero) GBP
Options purchased	Goldman Sachs	4,815,213	(2,834,748)	-	1,980,465
Forward foreign exchange contracts	Goldman Sachs	3,454	(3,434)	-	-

Derivative Type	Counterparty	Value of derivative liabilities GBP	Collateral received GBP	Collateral Pledged GBP	Net (if greater than zero) GBP
Forward foreign currency exchange contracts	Goldman Sachs	(468,791)	468,791	-	-

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

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

If the credit quality or the financial position of State Street Custody Services (Guernsey) Limited deteriorates significantly the Investment Manager will seek to move the Company's assets to another bank. State Street Custody Services (Guernsey) Limited is a State Street Bank and Trust Company. The credit rating of State Street Corporation, the parent company of the Depositary, was A2 at the reporting date (2015: A1) according to Moody's.

(c) Liquidity risk

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

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

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

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

14. Financial instruments and associated risks (continued)

(c) Liquidity risk (continued)

As at 31 March 2015:	Less than 1 month 31 Mar 2015 GBP	1-3 months 31 Mar 2015 GBP	3 months to 1 year 31 Mar 2015 GBP	Greater than 1 year 31 Mar 2015 GBP
Financial liabilities excluding derivatives				
Preference Shares	-	-	-	41,729,974
Due to related parties	-	171,649	-	-
Derivatives settled gross				
- Forward foreign exchange contracts	-	468,791	-	-
	-	**640,440**	**-**	**41,729,974**

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

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

(d) Valuation of Financial Instruments

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

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

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

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

14. Financial instruments and associated risks (continued)

(d) Valuation of Financial Instruments (continued)

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

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

As at 31 March 2015:	Level 1 31 Mar 2015 GBP	Level 2 31 Mar 2015 GBP	Level 3 31 Mar 2015 GBP	Total 31 Mar 2015 GBP
Non-current assets				
Real Estate Debt Investments – bonds	-	59,441,393	-	59,441,393
Real Estate Debt Investments - loans	-	-	87,092,274	87,092,274
Current assets				
Options held for trading	-	4,815,213	-	4,815,213
Forward foreign exchange contracts	-	3,454	-	3,454
Cash and cash equivalents	8,091,170	-	-	8,091,170
Other assets at carrying value	-	3,483,793	-	3,483,793
Current liabilities				
Forward foreign exchange contracts	-	(468,791)	-	(468,791)
Other liabilities at carrying value	-	(2,580,500)	-	(2,580,500)
Non-current liabilities				
Preference Shares	(41,729,974)	-	-	(41,729,974)
	(33,638,804)	**64,694,562**	**87,092,274**	**118,148,032**

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

14. Financial instruments and associated risks (continued)

(d) Valuation of Financial Instruments (continued)

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

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

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

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

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

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

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

The majority of the the Company's investments in loans are made though a Luxembourg based entity Stornoway Finance SARL via Loan Note instruments. As and when market information becomes available such as market prices from recognised financial data providers, the Company will assess the impact on the portfolio of loans which it holds and whether there are any transfers between levels in the fair value hierarchy. There were no transfers between Level 1 and Level 2 or between Level 2 and Level 3 during the year ended 31 March 2016 or during the year ended 31 March 2015.

At 31 March 2016, the investment manager is not aware of any significant movement in the market rates, any indications of impairment, significant credit events or significant negative performance of the underlying property structures, which might affect the fair value of the loans. Accordingly, the Investment Manager has determined that amortised cost is the best estimate of the fair value of these loans. Whilst no defaults in the underlying investments are expected, a 1% decrease on the yield would increase the fair value by £2,877,802 and increase net profit by an equal amount; an equal change in the opposite direction would decrease the equity of the loan portfolio within the Core and decrease net profit by an equal amount.

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

14. Financial instruments and associated risks (continued)

(d) Valuation of Financial Instruments (continued)

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

	Level 3 Core 31 Mar 2016	Level 3 Core 31 Mar 2015
Financial assets designated at fair value through profit or loss	**GBP**	**GBP**
Opening Balance	87,092,274	48,392,943
Total gains and losses recognised in the statement of comprehensive income for the year	4,512,873	(2,516,150)
Purchases	48,808,632	95,825,623
Sales	(27,171,522)	(51,808,299)
Transfer into/(out of) Level 3	-	(2,801,843)
Closing balance	113,242,257	87,092,274
Unrealised gain/(loss) on investments classified as Level 3 at year end	1,622,453	(2,890,420)

(e) Prepayment and re-investment risk

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

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

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

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

15. Segmental Reporting

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

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

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

15. Segmental Reporting (continued)

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

The Company has two reportable segments, being the Bond Portfolio and the Loan Portfolio. This is a change in operating segments from that which was reported in the annual financial statements for the year ended 31 March 2015. For the year ended 31 March 2015, the Company's two reportable segments were the Core and the Cell.

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

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

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

Year ended 31 March 2015:	**Bond Portfolio GBP**	**Loan Portfolio GBP**	**Total GBP**
Reportable segment profit	5,801,614	10,047,853	15,849,467

As at 31 March 2016	**Bond Portfolio GBP**	**Loan Portfolio GBP**	**Total GBP**
Reportable segment assets	39,971,268	115,348,791	155,320,059

As at 31 March 2015	**Bond Portfolio GBP**	**Loan Portfolio GBP**	**Total GBP**
Reportable segment assets	60,115,325	89,896,360	150,011,685

As at 31 March 2015 (as previously reported):	**Core GBP**	**Cell EUR**	**Total GBP**
Reportable segment assets	162,927,297	442,527	163,247,455

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

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

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

15. Segmental Reporting (continued)

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

	31 Mar 2016 GBP	31 Mar 2015 GBP
Reportable Segment profit	22,421,144	15,749,319
Net losses on credit default swaps	-	(158,264)
Net losses/gains on options	(1,648,316)	3,321,942
Net losses/gains on foreign exchange instruments and other foreign currency transactions	(5,631,460)	2,645,133
	15,141,368	21,558,130
Operating expenses	(3,138,734)	(4,240,387)
Finance costs	(3,464,988)	(3,520,488)
Net profit	**8,537,646**	**13,797,255**

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

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

	31 Mar 2016 GBP	31 Mar 2015 GBP
Reportable segment assets	155,320,059	150,011,685
Cash and cash equivalents	5,345,668	8,091,170
Derivative financial asstes - options held for trading	3,166,897	4,815,213
Derivative financial asstes - unrealised gain on forward foreign currency exchange contracts	-	3,454
Other assets	5,775	5,775
	163,838,399	162,927,297

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

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

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

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

15. Segmental Reporting (continued)

As at 31 March 2015:	Bond Portfolio GBP	Loan Portfolio GBP	Total GBP
Investments at fair value through profit or loss			
Opening fair value	92,875,148	48,392,943	141,268,091
Purchases	10,776,392	94,266,367	105,042,759
Sales proceeds	(56,458,430)	(53,050,884)	(109,509,314)
Realised gain/loss on sales*	13,066,130	(2,048,234)	11,017,896
Net movement in unrealised gains on investments at fair value through the profit or loss*	(94,011)	(467,918)	(561,929)
Principal paydowns	(929,917)	-	(929,917)
Foreign currency translation adjustment	206,081	-	206,081
Closing fair value	**59,441,393**	**87,092,274**	**146,533,667**

*Excludes effective interest adjustment of £3,010,578 relating to the bond portfolio for the year ended 31 March 2015, which has been included in the Interest income in the Statement of Comprehensive Income.

The following is a summary of the movements in the Company's investments analysed by the Core and Cell as at 31 March 2015 as reported under the prior operating segments.

As at 31 March 2015:	Core GBP	Cell EUR	Total GBP
Investments at fair value through profit or loss			
Opening fair value	133,516,951	9,375,888	141,268,091
Purchases	106,602,015	-	106,602,015
Sales proceeds	(95,253,812)	(25,741,559)	(115,448,877)
Realised gain on sales*	5,344,544	12,135,605	14,865,309
Net movement in unrealised gains on investments at fair value through the profit or loss*	(2,746,114)	4,230,066	572,506
Principal paydowns	(929,917)	-	(929,917)
Foreign currency translation adjustment	-	-	(395,460)
Closing fair value	**146,533,667**	**-**	**146,533,667**

*Excludes effective interest adjustment of £3,010,578 for the year ended 31 March 2015.

16. Collateral

The Core pledged £1,038,948 (31 March 2015, cash collateral held: £2,369,411) as cash collateral for financial derivative instruments transactions undertaken with Goldman Sachs. This collateral also represents an obligation for Goldman Sachs to repay the Core on settlement of the financial derivative instrument and is not included in the Statement of Financial Position. As this amount is the minimum deemed by the brokers for collateral requirements the cash is restricted and is reported separately by means of this note only.

17. Material agreements and related party transactions

Loan investments
The Company has made, and will continue to make, certain loan investments through a Luxembourg based entity Stornoway Finance SARL via Loan Note Instruments. This entity has separate compartments for each loan deal. Other funds also managed by the Investment Manager invest pari passu in these compartments. Any loans not co-invested on a pari passu basis will be noted separately as per above.

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

17. Material agreements and related party transactions (continued)

Investment Manager
The Company is party to an Investment Management Agreement with the Investment Manager (a related party), dated 12 March 2015, pursuant to which the Company has appointed the Investment Manager to manage its assets on a day-to-day basis in accordance with its investment objectives and policies, subject to the overall supervision and direction of their respective Boards of Directors.

The Company pays Cheyne Capital Management (UK) LLP (the "Investment Manager") a Management Fee and a performance based Incentive Fee.

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

During the year ended 31 March 2016, the Management Fee totalled £2,031,752 (31 March 2015: £1,985,416), of which £172,100 (31 March 2015: £171,649) was outstanding at the year end.

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

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

As the Performance Period (as defined in the Prospectus) is from 11 November 2013, to the end date of the quarter in which the first Continuation Resolution is passed being the date of the annual general meeting in 2017, this has the effect of resetting the NAV on which the Hurdle Rate will be determined.

During the year ended 31 March 2016, the Performance Fee totalled £195,358 (31 March 2015: £1,431,773), of which £1,627,132 (31 March 2015: £1,431,773) was outstanding at the year end.

Administration Fee
Under the terms of the Administration Agreement, the Administrator is entitled to receive from the Company an annual administration fee of 0.125% of the net asset value of the Company up to £120,000,000 and 0.0375% of the net asset value of the Company greater than £120,000,000, plus additional fees in relation to transaction fees, statutory reporting, corporate secretarial fees and other out of pocket expenses. State Street Fund Services (Ireland) Limited, the Sub-Administrator, is paid by the Administrator. The above is subject to a minimum monthly fee of £10,000. During the year ended 31 March 2016 the administration fee totalled £137,882 (31 March 2015: £114,655), of which £11,942 (31 March 2015: £30,858) was outstanding at the year end.

Depositary Fee
Under the terms of the Depositary Agreement, the Depositary is entitled to receive from the Company an annual Depositary fee of 0.02% of the net asset value of the Company. During the year ended 31 March 2016 the Depositary fee totalled £55,200 (31 March 2015: £49,015). The Company owed £36,854 to the Depositary at the year end date (31 March 2015: £13,997).

Investment Manager Options
In recognition of the work performed by the Investment Manager in raising capital for the Company, the Company granted to Cheyne Global Services Limited on 8 December 2005 options representing the right to acquire 2,250,000 Shares, being 10% of the number of Offer Shares (that is, excluding the Shares issued to Cheyne ABS Opportunities Fund LP and the Shares issued to the Directors), at an exercise price per share equal to the Offer Price (€10.23). The Investment Manager Options were fully vested and immediately exercisable on the date of admission to the London Stock Exchange and remained exercisable until the 10th anniversary of that date, which occurred in December 2015, these options have now lapsed.

Notes to the Financial Statements (continued)
For the year ended 31 March 2016

17. Material agreements and related party transactions (continued)

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

18. Contingencies and commitments

The Company has committed up to GBP 119.6 million into loans through Stornoway Finance SARL. As at 31 March 2016, it had funded GBP 115.3 million of this commitment, (31 March 2015: GBP 101.9 million commitment of which GBP 90 million was funded).

19. Significant events during the year

Bob Cowdell was appointed to the Board of Directors of the Company as an independent Non-Executive Director with effect from 1 June 2015. He took over as non-executive Chairman on 12 June 2015, following the release of the Company's results for the year ended 31 March 2015.

Viscount Chandos resigned from the Board of Directors on 12 June 2015.

On 2 July 2015, the Company announced that Talmai Morgan would not seek re-election at the AGM, and accordingly he resigned from the Board of Directors effective on 11 August 2015.

The Investment Manager options granted in December 2005 in recognition for work performed in raising capital, lapsed in December 2015.

John Hallam was appointed Non-Executive Director with effect from 21 March 2016.

The final Residual Income Position which remained in the Cell was realised in January 2016, and the remaining cash distributed in March 2016. As at 31 March 2016 the Cell had no assets or cash held and has therefore ceased to exist.

20. Subsequent events

A final interim dividend for the year ended 31 March 2016 of 2.7p per Core Ordinary Shares was approved by the Directors on 16 June 2016. A special dividend of 0.8p per Core Ordinary Shares was also approved by the Directors on 16 June 2016 for the year ended 31 March 2016.

In May 2016, the Company made a further investment in real estate loans amounting to £4.5 million. The whole loan is secured by a development site in Clapham, London.

John Hallam will take over as Audit Chairman at the next AGM.

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

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

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

Currency	31 Mar 2016	31 Mar 2015
EUR	1.2613	1.3822
US Dollar	1.4373	1.4845

The following average exchange rates relative to GBP were used in the preparation of the financial statements

Currency	31 Mar 2016	31 Mar 2015
EUR	-	1.2746

22. Approval of the Financial Statements

The annual report and audited financial statements of the Company were approved by the Directors on 16 June 2016.

Appendix I – Remuneration Policy (Unaudited)

Annual Remuneration Disclosure For The Year To 31 March 2016

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

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

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

CCMLLP was authorised as an AIFM on 22 July 2014. The quantitative disclosures required under Article 22 of AIFMD in accordance with the European Securities and Markets Authority ("ESMA") guidance for the Year Ended 31 March 2016, in respect of remuneration derived from the AIF are as follows:

Aggregate quantitative information on remuneration of Code Staff

Business Area	Number of Code Staff	AIFM Total Remuneration (all variable)	Code Staff relevant to the AIF	Remuneration derived from the AIF (all variable)	Deferred Remuneration derived from the AIF
Portfolio Management	27	£12,032,615	2	£414,780	£112,306
Senior Management	8	£1,399,452	8	£72,965	£0
Total	35	£13,432,067	10	£487,745	£112,306

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

Appendix II – Leverage (Unaudited)

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

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

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

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

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

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

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

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

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

Leverage is limited to 500% of Net Asset Value of the Company under both the Gross and Commitment approaches. Up to 31 March 2016, the maximum leverage calculated has been 165.8%, for the Gross Approach and 141.5% for the Commitment Approach. In the year ended 31 March 2016, the average leverage amounted to 155.2% for the Gross Approach and 137.2% for the Commitment Approach.