ACENCIA DEBT STRATEGIES LIMITED

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS 2013

ACENCIA DEBT STRATEGIES LIMITED
CONTENTS

ACENCIA DEBT STRATEGIES LIMITED
INVESTMENT HIGHLIGHTS

	31 December 2013	31 December 2012
Share price at year end	**100.30p**	**86.00p**
Dividend paid during year	**3.68p**	**3.43p**
Total Shareholder return for year	**+20.9%**	**+9.7%**
Net asset value per share at year end	**109.75p**	**103.38p**
Net asset value increase in year (dividend reinvested)	**+9.7%**	**+9.7%**

ACENCIA DEBT STRATEGIES LIMITED
SUMMARY INFORMATION

Principal Activity
AcenciA Debt Strategies Limited ("the Company" or "AcenciA") is an authorised closed-ended investment scheme domiciled in Guernsey. The Company is premium listed and traded on the main market of the London Stock Exchange.

Investment Objective and Policy
The Company's investment objective is to produce annual returns in excess of 3-month Sterling LIBOR plus 5 per cent over a rolling 3-year period, with annual standard deviation of under 5 per cent.

The Company's investment policy is to invest in an actively managed portfolio of predominantly debt-oriented hedge funds. Following the Extraordinary General Meeting on 20 September 2011 the Company will place such redemption notices as necessary ahead of the possible wind up date of 31 December 2014, and will not, in the interim, make any new investments in funds which have lock-up or capital commitment periods beyond this date. The future of the Company is discussed below.

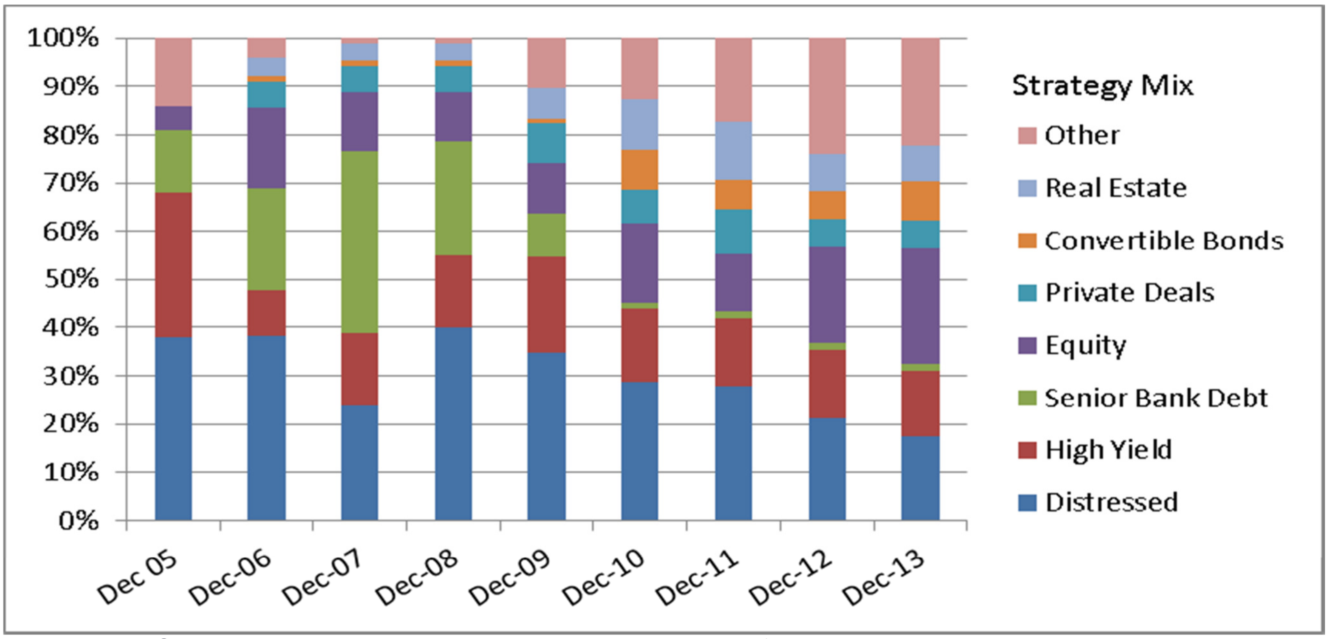
Dividend Policy
The Company's dividend policy is to pay an annualised dividend equivalent to 3.5 per cent of net assets by means of interim dividend payments. During the year to 31 December 2013, the Company paid a dividend of £4,308,834.

Future of the Company
As per the resolution passed at the Extraordinary General Meeting dated 20 September 2011 and in accordance with the amended Article 36.1 of the Company's Articles of Incorporation, the Directors shall call a general meeting of Shareholders in September 2014 at which an ordinary resolution shall be proposed to approve the voluntary winding up of the Company (the "2014 Winding-up Resolution") with effect from 31 December 2014. The votes on the resolution will be weighted such that if any Shareholder votes in favour of winding up, the 2014 Winding-up Resolution will pass.

Whilst the Board cannot be certain what the results of this 2014 Winding-up Resolution will be, the Company has considerable financial resources and after making enquiries the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly the Directors continue to adopt the going concern basis in preparing these Financial Statements. As the Directors intend to serve protective notice on service providers and as 98% of the Company's net assets are represented either by cash or by investments which are expected to be realisable on normal terms at their then stated current net asset values, the net difference between valuing the Company's assets on a going concern basis or a non-going concern basis is expected to be immaterial.

Further details of the 2014 Winding-up Resolution are included within the Directors' Report on page 13.

Asset Allocation by Hedge Fund Strategy
The estimated allocation to underlying hedge fund strategies as at 31 December 2013 was as follows:



** Estimate by Saltus Partners LLP based on interviews with a sample of underlying managers.*

ACENCIA DEBT STRATEGIES LIMITED
SUMMARY INFORMATION, continued

Analysis of Significant Investments
The significant direct holdings of the Company as at 31 December 2013 are set out in the first table below. Of these, 7 are fund of fund vehicles managed by Sandalwood Securities, Inc. ("Sandalwood"), the Company's Investment Adviser. The significant holdings on a look-through basis (i.e. showing the effective exposure to underlying single manager hedge funds, ignoring the fund of fund vehicles) are set out in the second table below.

The Company's Significant Direct Holdings

Name of investment	Strategy	Fair Value £	% of Portfolio Value
Fund of Funds Managed by Sandalwood			
Bodleian Partners Class A Limited Partnership	Fund of Funds	31,254,198	27.01%
Sandalwood Debt Fund A Limited Partnership	Fund of Funds	25,282,433	21.85%
Sandalwood Overseas Fund SPC Class L	Fund of Funds	23,339,206	20.17%
Sandalwood Double S	Fund of Funds	13,847,963	11.97%
Sandalwood Debt Fund B Limited Partnership	Fund of Funds	6,572,256	5.68%
Sandalwood Opportunity Fund	Fund of Funds	3,243,341	2.80%
Sandalwood SPV Debt A	Fund of Funds	1,447,434	1.25%
Sub Total		**104,986,831**	**90.73%**
Single Manager Funds			
Elliott International Fund	Multi-strategy credit	4,877,777	4.21%
Cerberus Institutional Partner	Distressed securities	4,358,596	3.76%
Sub Total		**9,236,373**	**7.97%**
Total		**114,223,204**	**98.70%**

The Company's investment portfolio on a Look-through Basis comprised the following principal holdings:

Name of investment*	Strategy	Fair Value £	% of Portfolio Value
Redwood Domestic Fund, LP	Multi-strategy credit	17,195,149	14.86%
Elliott Associates, LP	Multi-strategy credit	16,368,365	14.14%
Third Point Partners (QP), LP	Event Driven	9,765,145	8.44%
Cerberus SPV, LLC	Distressed securities	9,254,532	8.00%
Centerbridge Credit Partners	Distressed securities	8,891,974	7.68%
York Credit Opportunities Fund	Multi-strategy credit	8,155,707	7.05%
Jet Capital Concentrated Fund	Multi-strategy credit	7,445,804	6.43%
Canyon Balanced Fund, L.P.	Multi-strategy credit	6,460,762	5.58%
Scoggin Worldwide Investors, LP	Distressed securities	4,639,192	4.02%
Appaloosa Investment. LP	Distressed securities	4,622,511	3.99%
Total		**92,799,141**	**80.19%**

** In several cases the exposure to these funds is made up of a combination of an indirect investment in the domestic funds and a direct investment in the overseas sister fund, which has similar but not identical portfolio composition.*

Further analysis of the Company's investment portfolio is set out on page 11.

ACENCIA DEBT STRATEGIES LIMITED
CHAIRMAN'S STATEMENT

I present below my report to Shareholders in respect of the financial year ended 31 December 2013.

Performance Review
During 2013, the net asset value (“NAV”) per Ordinary Share increased by 9.7% per cent to 109.75p (taking account of dividends paid). Total Shareholder returns were 20.9% per cent comprising a share price increase of 14.3p to 100.30p and total dividends of 3.68p paid during the year.

Investment Review
2013 was another successful year for the Company. The strong performance generated in the period validated the Company’s investment strategy of holding a concentrated portfolio which focuses on establishing investment partnerships with superior hedge fund managers tasked with finding a multitude of multi-strategy credit and event-driven opportunities. Pleasingly, these returns were delivered with low volatility against a market backdrop that was at times variable.

The Sub-Manager’s report reviews the investment performance in greater detail, as well as the outlook, but your Board believes that the opportunity set remains compelling. As we continue to move further along in this credit cycle, we are seeing an increase in manager diversification across geographies and in particular into European assets as banks commence the process of de-leveraging in earnest. In addition, it is expected that ongoing regulatory changes will further fuel this process forcing both US and European banks to sell their stressed and distressed assets.

As many Shareholders are aware, the Company faces a continuation vote in September 2014 as the Directors shall call a general meeting at which an ordinary resolution shall be proposed to approve the voluntary winding up of the Company with effect from 31 December 2014. The Board remains committed to providing any shareholder who so wishes a cash exit in early 2015 however, a number of Shareholders have expressed an interest in remaining invested. Therefore, in conjunction with the Sub-Manager, the Board will be gauging interest for a limited-life continuation option allowing Shareholders to continue to take advantage of the investment opportunity beyond the Company’s current investment period.

Company News
The current year has started well and the Company’s net asset value is up 1.3% to the end of February. Over the same period, the share price has risen 2.7% resulting in the discount narrowing to 7.3%.

As previously communicated in July 2013, the Board is committed to a return of capital to Shareholders via an Enhanced Share Buy-back Programme subject to the Company having sufficient liquidity to continue to pay dividends and maintain its currency hedging program. The obligation to buy back shares is also contingent on the discount remaining wider than the Discount Target. Since the announcement, the share price has consistently traded on a discount tighter than 10%. The Board has therefore decided to reduce the discount target to 7.5% although will keep this under review with the possibility it may be further reduced during the course of the year, market conditions permitting.

Dividend
The Board is pleased to declare an interim dividend of 1.92p per share, representing 1.75% of the NAV per Ordinary Share on 31 December 2013. This represents an annualised yield of 3.7% based on the closing share price of the Company on 31 March 2014 of 105.00p. It will be paid on 2 May 2014. The record date will be 4 April 2014 and the shares will go ex-dividend on 2 April 2014.

J Le Pelley
Chairman

Date: 1 April 2014

ACENCIA DEBT STRATEGIES LIMITED
SUB-MANAGER'S REPORT

Performance Summary
For the year ended 31 December 2013, the Company's NAV per Ordinary Share increased 9.7% in total return terms, with dividends totalling 3.68p having been paid and a closing NAV per Ordinary Share of 109.75p. The share price increased from 86.0p to 100.30p meaning total returns to Shareholders were 20.9% when taking account of total dividends of 3.68p. The discount narrowed from -16.8% to -8.6%.

	Share price and Discount		Performance	
	31 December 2013	**31 December 2012**	**From:**	**1 year**
NAV	109.75	103.38	NAV (TR)*	9.7%
Price	100.30	86.00	Price (TR)*	20.9%
Discount	*-8.6%*	*-16.8%*		*+8.2%*

*includes dividends

For the same period the S&P was up 32.4%, the HFR Distressed Index increased 5.4%, leverage loans increased 0.6% and high yield rose 0.9%. AcenciA continued to exhibit both low volatility and a material lack of correlation to equity markets.

Source: DataStream

Performance drivers

AcenciA enjoyed a good start to the year, up 5.3% pre dividends in the first half and carried on in similar vein in the second, adding 4.4%.

On a quarter by quarter basis:

The first quarter's gains were driven by the Company's long-biased managers, Third Point, Canyon Balanced, and Appaloosa. Long/short and event-oriented strategies also performed well, led by gains from Elliott, Saba, and Anchorage. During the quarter, managers generated gains in many areas, including liquidation trades, residential mortgage backed securities (RMBS), equity and event-driven/special situations trades and U.S. and European stressed and distressed investments. Many of our managers were able to generate gains from their long position in Lehman liquidation claims which rallied during the quarter as the Lehman Estate continues the liquidation process, which has consistently resulted in higher recovery values on asset sales. Residential Mortgage Backed Securities (RMBS) were a positive contributor during the quarter. The U.S. residential mortgage market continues to rebound, driven by rising home prices, fuelled by low interest rates and a shrinking inventory of distressed or foreclosed homes, as the effectiveness of principal modification appears to be working. Equity investments were also a significant driver during the quarter. The Company's managers were able to achieve gains from long investments in the post-reorganisation equity of auto component manufactures Dana and Lear, as well as AIG.

MGM, the motion picture company, is an another post-reorganisation equity position which was a strong performer for the first quarter, as the market continues to realise the value of its content library and the success of its key franchises "James Bond" and "The Hobbit," which have generated box office sales in excess of $1bn each. The event-driven/special situations portfolio benefitted from strong performance in Yahoo! and Herbalife, as both companies are involved in some form of activist activity. Long event-oriented investments in a number of energy stocks and deep value investments in select airline stocks also generated gains. A loss was incurred from a long investment in a natural resources company which was unable to sell one of its major assets and encountered accounting issues which led to a restatement of its historical financial statements. It was pleasing to see event-oriented managers continuing to find new opportunities in securities likely to be impacted by legal or regulatory processes that offer attractive risk/reward trade-offs.

Within the U.S. credit portfolio, the Company benefitted from increased restructuring and refinancing activity. Long positions in the debt of Clear Channel generated profits as the company was able to access the capital markets at reasonable financing terms. Gains were also achieved from the debt of American Airlines as the company agreed to merge with U.S. Airways. Managers continued to find interesting short-dated opportunities in event-driven corporate credit as many companies took advantage of the buoyant high yield market to extend their debt maturities. During the period, some managers began to move a portion of their portfolio to the more senior parts of the capital structure, thereby limiting their exposure to credit risk while attempting to generate gains through spread compression. Within Europe, a select group of our managers found interesting opportunities resulting from banks selling down part of their distressed loan portfolio, as well as unique opportunities to participate in distressed non-performing loans, rescue funding opportunities, and asset-backed receivable trades.

Performance drivers, continued

Gains during the quarter were generated by a broad swath of managers, both directional and event-focused. Appaloosa, Anchorage, Archview, Scoggin Worldwide, and Third Point all performed well. The Company's long/short, relative-value focused strategies and dedicated equity event-driven mangers were positive, but their returns were more muted.

In the second quarter, many of the investment themes remained the same from the prior one. A highly encouraging development was that the trend toward idiosyncratic events driving returns continued. Despite historically low default rates, the distressed segment of the market continued to provide several varied opportunities, including a handful of liquidations as well as reorganisations. Nearly five years after its bankruptcy filing, the Lehman Brothers estate released several positive data points, including the semi-annual progress report for one of its overseas entities. The report indicated the possibility of a greater-than-par recovery for unsecured creditors as well as the potential for a significant distribution, which was made in June. Managers also benefited from developments in the Eastman Kodak reorganisation as well a position in the 2.25% subordinated notes of KV Pharmaceutical Company.

Both structured credit and RMBS were also positive contributors during the second quarter. Rising home prices, aided by low interest rates and shrinking home inventory, continued to underpin the rally in non-agency RMBS. Simultaneously, the search for yield drove prices of complex structured credit instruments higher. In addition to non-agency RMBS, many managers took the opportunity to diversify their portfolios by focusing greater attention on Commercial Mortgage-Backed Securities ("CMBS"), non-US RMBS, Collateralised Loan Obligations ("CLOs") and other areas of the asset-backed market which have not garnered the same attention as RMBS. Many managers used market strength in May to reduce positions only to be able to buy back securities at lower levels in June as Fed induced interest rate volatility caused these sectors to sell off, thereby creating buying opportunities.

The growing segment of managers' portfolios dedicated to Europe also contributed positively for the quarter as the European Central Bank continued to show resolve in keeping the European Union from slipping back into financial turmoil. Finally, event-driven equity and credit investments continued to be additive with several catalysts playing out during the quarter.

After the previous quarter's discussion of tapering which made markets jittery, the Fed decided not to do so, citing tightening credit markets, sluggish employment, and general fiscal policy uncertainty. The 10-yr Treasury yield rose more than 1% between May and mid-September hitting 3% primarily based on the Fed's announcement regarding their intentions to taper. The benchmark interest rate ended the quarter at 2.61%. As we learned that Janet Yellen, not Larry Summers, would be the president's nominee for the next Fed Chair, Washington threw the markets a curveball as the government was shut down for the first time in 17 years as both parties were unable to agree on how to fund Federal discretionary spending. While the budget issues were troubling, the real concern was the brinkmanship related to the possibility of a default caused by political, not economic, factors. Fortunately, cooler heads prevailed in the second week of October as yet another "manufactured" crisis was averted with fiscal responsibility being yet again kicked down the road.

Nonetheless, the third quarter saw gains generated by nearly all managers, both directional and event-focused. Appaloosa, Anchorage, Redwood, Canyon, Third Point, and Elliott all performed well. The Company's long/short, relative-value focused strategies produced more muted, and in the case of Saba, negative returns.

Distressed investments, particularly Edison Mission and Lehman Brothers, were primary drivers of returns for several managers in Q3. One manager's position in claims against Lehman's U.K. brokerage unit, continued to rise in price as the unit settled major disputes with several key affiliates. Another manager, who was the largest debt holder in Edison Mission, a unit of Edison International based in Santa Ana, California, benefitted when it filed for Chapter 11 bankruptcy protection in December, citing heavy debts, weak power prices and high fuel costs. The company is one of many in the energy space to suffer as a result of the 2007-2009 recession, which brought about lower power demand as well as the glut of cheaper natural gas, the combination of which caused wholesale power prices to fall.

Continued market stability in the third quarter ensured RMBS/CMBS and other structured credit assets remained attractive though the pace of the gains has slowed from prior quarters. As a result, allocation to one of our RMBS managers was trimmed during the period. Despite this, one manager was also able to trade opportunistically, selectively adding seasoned subprime mezzanine bond exposure at prices 20% below those at which they sold most of their portfolio during the Q1 rally. Although the majority of exposure remained in US based RMBS, managers were actively adding non-US RMBS and CMBS positions during the quarter.

Performance drivers, continued

In the third quarter, European opportunities once again continued to grow as an overall allocation within the portfolio and were additive. Many European financial institutions stepped up the process of selling their "bad loans" as European bank regulators have tightened capital requirements. Additionally, European banks have written many assets to zero which results in their realising a quick gain upon sale. One manager bought a pool of Spanish consumer NPLs for 3 cents on the dollar and is expecting 20% rates of return from the portfolio based upon projected 10 cent to 15 cent recoveries. Managers remain excited by these types of transactions which fit nicely with the more liquid stressed and distressed situations. Finally, event-driven equity and credit investments continued to be additive as strength in equity markets combined with several catalysts drove returns for certain managers.

In the final quarter of 2013, the Fed announced that they would decrease the amount of monthly Treasury and Agency mortgage purchases by $5 billion each, thus reducing the pace of total purchases to $75 billion per month, down from $85 billion. The market's initial reaction to the Fed's tapering was a sharp downward move. However, by the end of the year, the tapering news was interpreted as a signal that the economy was indeed improving. Despite the early-Fall debt ceiling scare, nearly all risk assets capped the quarter, and 2013, with a positive December. The S&P 500 hit an all-time high, culminating in the best calendar year for U.S. stocks since 1997. While equities cheered the tapering decision, interest rate sensitive sectors of the market were less optimistic. Interest rates rose across most of the yield curve in December. The largest move was in the 5-year rate, which increased by 37 basis points. The 30-year rate climbed 16 basis points and the 10-year rate increased by 28 basis points; bringing the 10-year yield curve to approximately 3%. Credit markets continued their ascent, propelled by the news of a stronger economy. The average price of the high yield market remained above $103 for the third consecutive month and spreads tightened from 418 to 400 basis points primarily as a result of a rise in Treasury yields. Despite positive fundamentals, high yield mutual funds experienced outflows of $750 million during December and new issuance was muted due to the holidays.

During the period, one of the major drivers of returns was exposure to traditional idiosyncratic debt positions. Jefferson County Municipal debt rallied after the County exited bankruptcy and successfully accessed the capital markets to fund the buyout of its prepetition bonds. Positions in the capital structure of TXU, the troubled 2007 electrical utility LBO, also benefitted as negotiations advanced between the company's equity sponsors and other creditors over a company-wide restructuring. The distressed portfolio once again benefitted from increased activity in Europe as several managers continued to increase their allocation. New positions in the quarter included Codere, a Spanish gaming company that was experiencing liquidity issues after a deterioration of its operations in Europe and Latin America. Another manager benefitted from their position in McCarthy & Stone, a U.K. homebuilder specialising in care homes. The bank debt of the Irish telecommunications firm Eircom, Ireland's primary telecom provider, advanced as the company is increasingly viewed as an acquisition target following a successful reorganisation. At the sector level, the shipping industry once again provided a major area of opportunity with one manager able to purchase several ships through a joint venture whilst monetizing another shipping investment through the sale of four product tankers that are currently under construction at a shipyard in Asia.

The benign default environment continued to provide a stable backdrop for structured credit assets. Opportunities continued to present themselves in the Mortgage Backed Security ("MBS") space, as these securities have floating rates and an average price of 74 cents with an eventual expected recovery near par. Other managers were able to structure attractive transactions outside the U.S. given their strong relationships, ability to transact within a short timeframe, and their presence in the U.K. commercial real estate lending space.

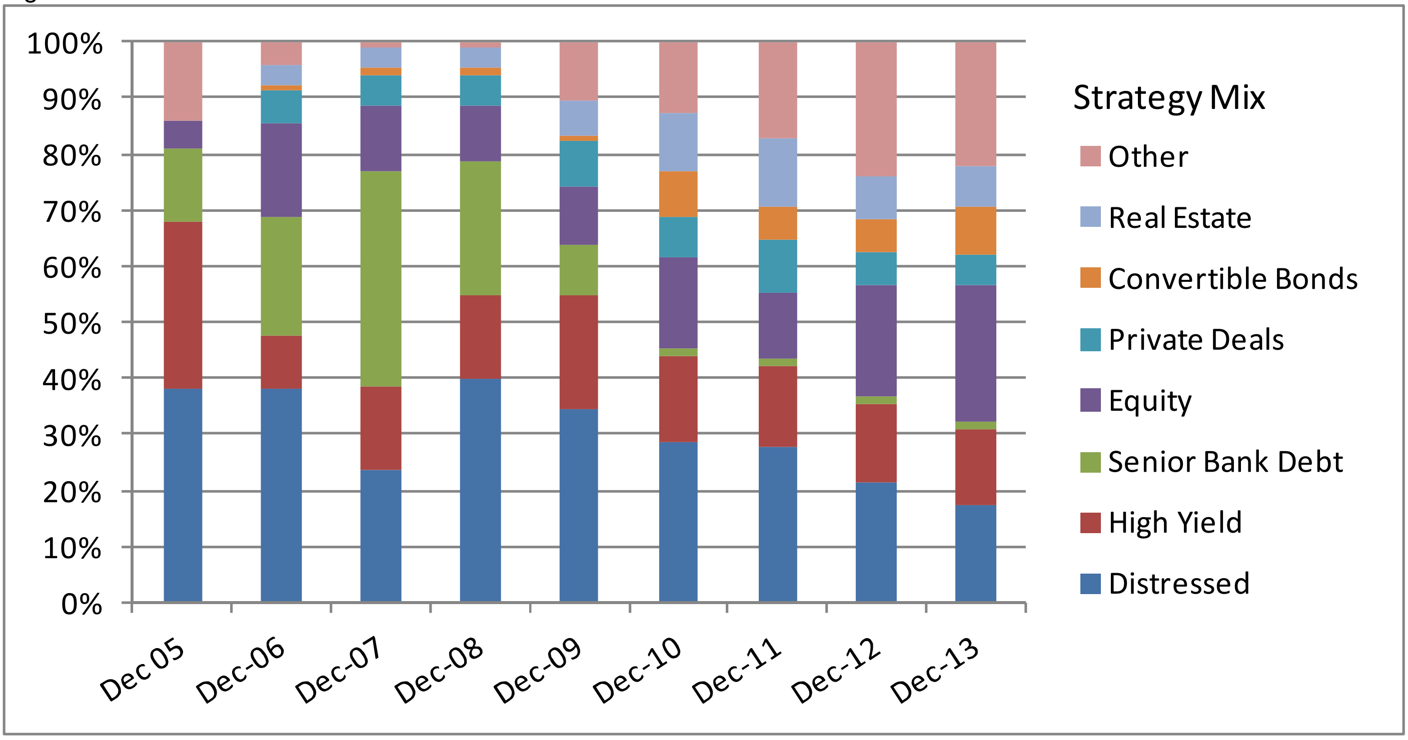
Unsurprisingly, given the strength of the equity markets in 2013 the Event-Driven Equity segment of the portfolio experienced robust returns. Whether it was the realisation that the Fed's tapering announcement may signal the beginning of the end for ultra cheap financing, the potential for agitation from activists, or the record levels of cash on corporate balance sheets, CEOs and boards meaningfully increased acquisitions, buy backs and other shareholder friendly activity during the quarter. Activism in particular was a strong strategy with several managers undertaking multiple campaigns. Elliott was particularly active in M&A deals in the quarter. The uptick in merger related opportunities also provided gains as Time Warner Cable was approached by Charter Communications, American Airlines emerged from Chapter 11 and was able to merge with U.S. Airways, and the merger between Elan and Perrigo was approved. Outside of traditional event equity situations, leveraged equity positions in the energy space were also positive contributors.

Return drivers for AcenciA

The vast majority of managers are multi-strategy debt, giving them the flexibility to reallocate on a dynamic basis to the best opportunities across the debt markets.

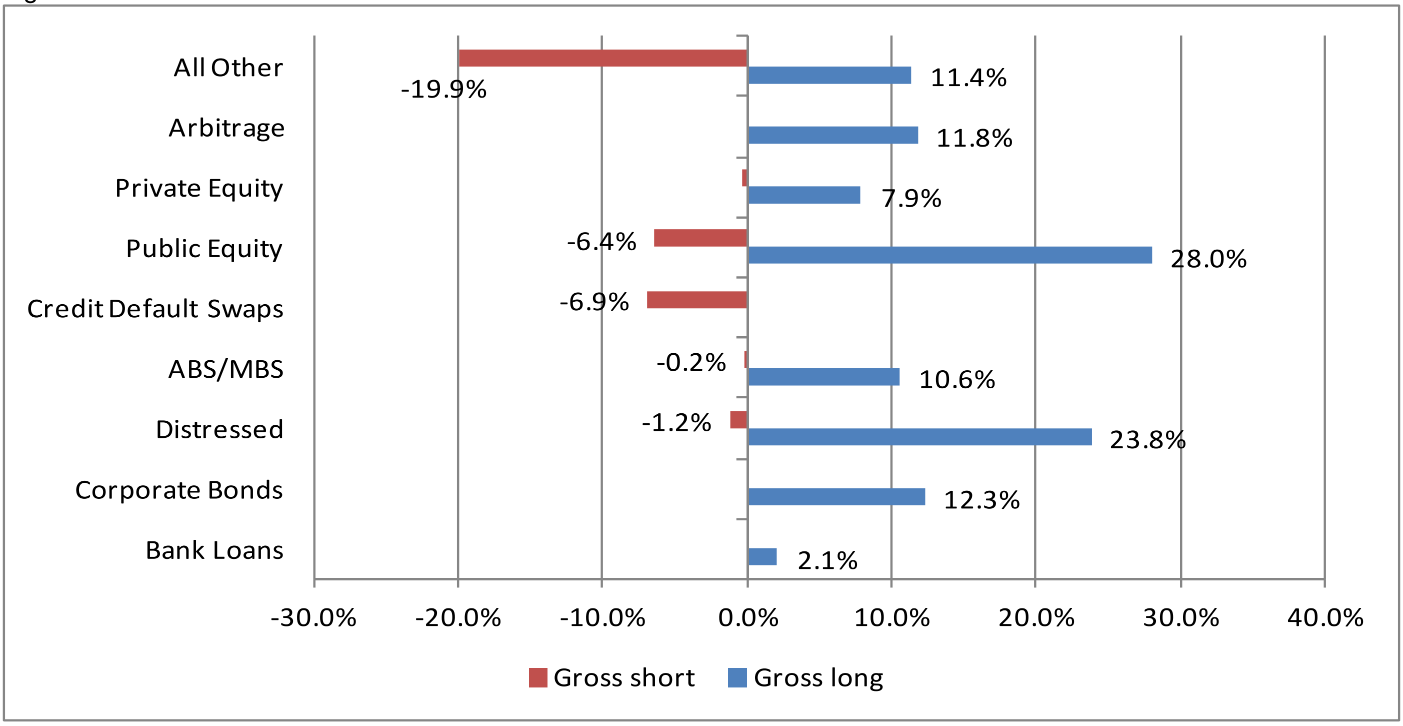
The chart below describes the sub-strategies within the credit arena employed by our managers on a look-through basis,

Fig.1



whilst the chart below shows AcenciA's exposure by investment type.

Fig.2

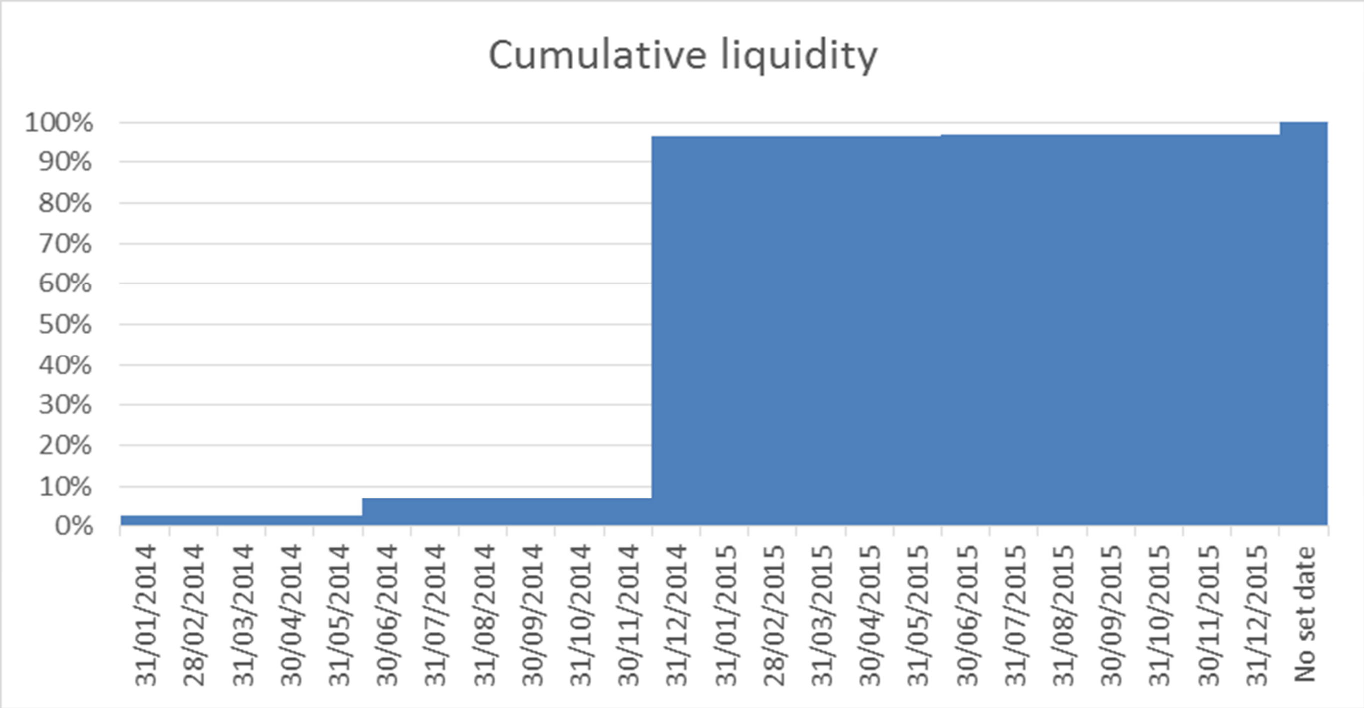


ACENCIA DEBT STRATEGIES LIMITED
SUB-MANAGER'S REPORT, continued

Liquidity profile

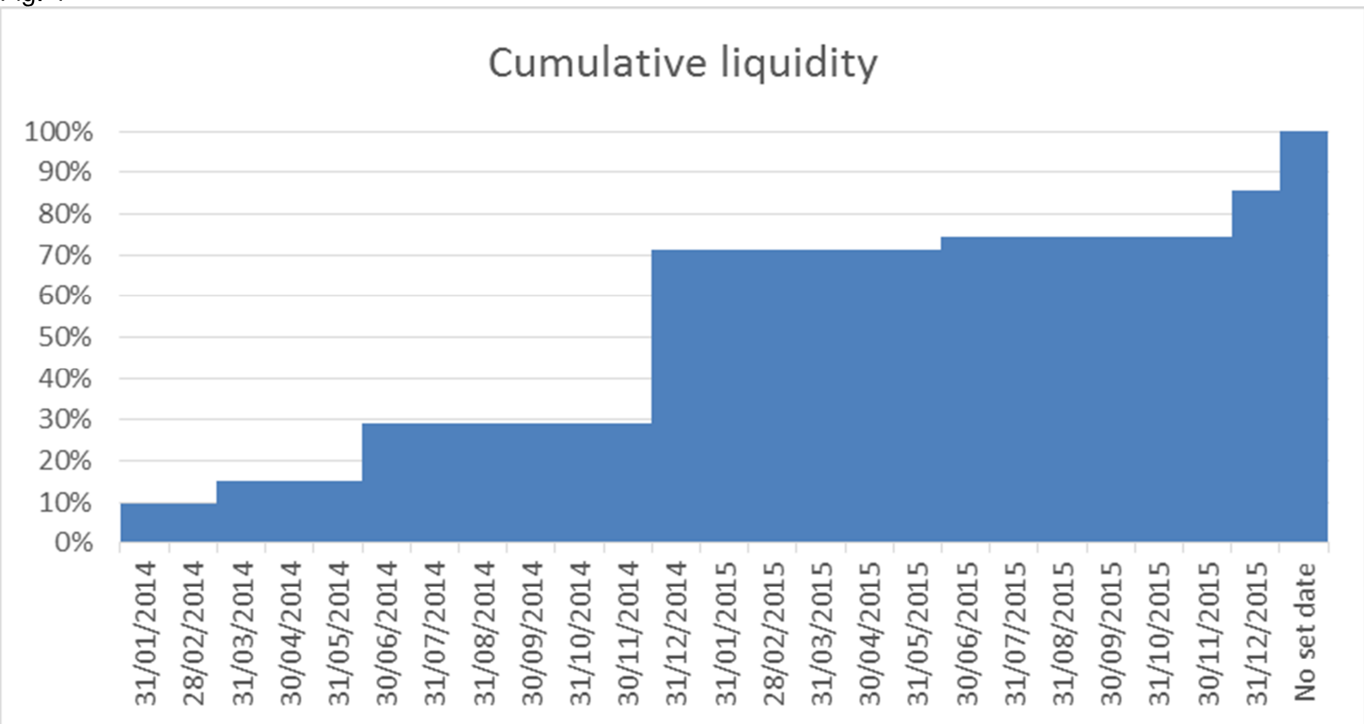
The direct liquidity profile of AcenciA's holdings as at 31 December 2013 is shown below:

Fig.3



The indirect liquidity profile of AcenciA's holdings on a look-through basis as at 31 December 2013 is shown below:

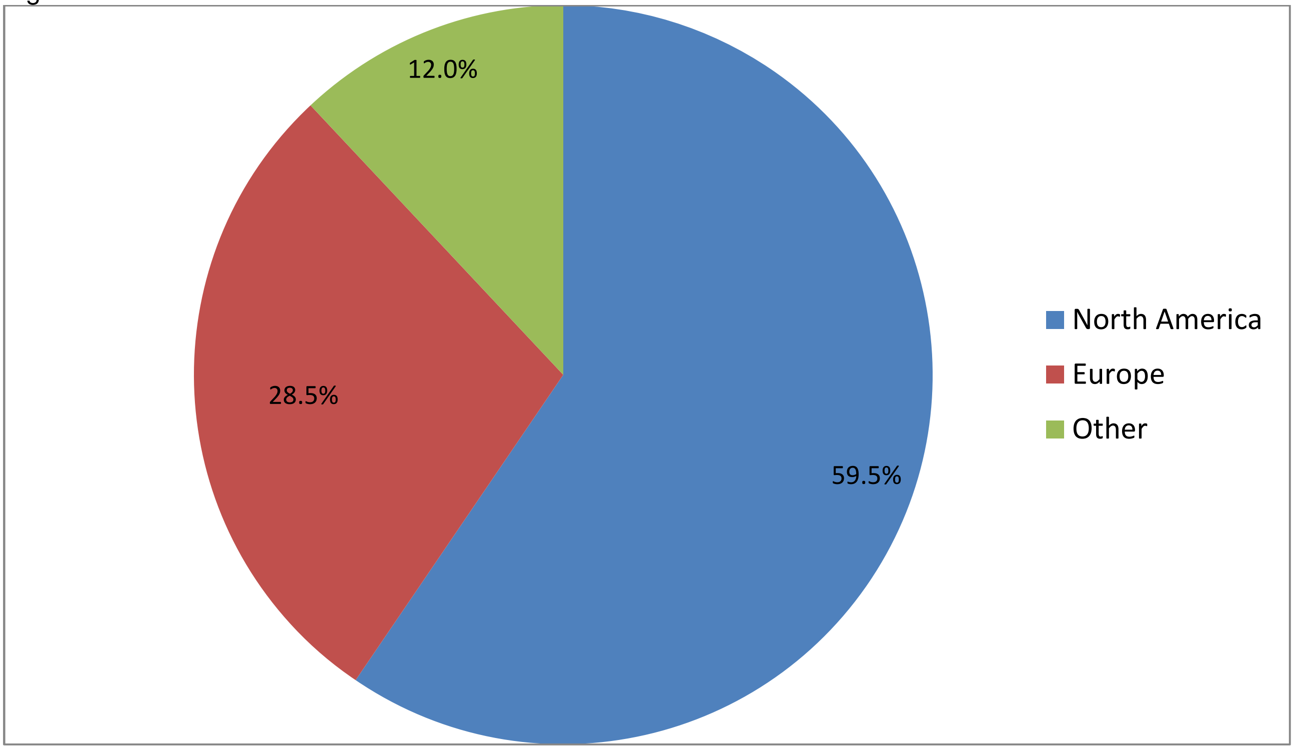
Fig. 4



* Liquidity analysis does not take into account initial lock-ups, gates or redemption suspensions. It also excludes uncalled commitments.

Geographical exposure

Fig.5



Investment Outlook

We believe that 2013 was another year that validated the Company's investment strategy of focusing on an investment partnership with superior hedge fund managers who are tasked with finding value in a multitude of multi-strategy credit and event-driven opportunities.

The opportunity set for managers continues to benefit those with established global platforms which can look across the capital structure and underwrite various asset classes. Looking forward, it is expected that the underlying managers will continue to favour complex, catalyst-driven investments over beta oriented or macro investments. Based on low levels of defaults, volatility and yields as well as high returns in 2013, the logical expectation would be for low future returns. Unfortunately, forecasting, as the last five years has shown, is a tough business. Few, if any, would have thought that the global central banker's experiment would have resulted in a potentially deflationary environment rather than a repeat of Weimar Republic style inflation. Experience in the industry tells us that the winds will change direction. Following two years of strong, high quality returns we believe our portfolio remains positioned to take advantage of an evolving, global opportunity set marked by an increasing number of distressed and stressed credit situations in Europe, activist and event equity situations, and nuanced long and short credit trading, which includes structured products.

Saltus Partners LLP

Date: 1 April 2014

ACENCIA DEBT STRATEGIES LIMITED
INVESTMENT PORTFOLIO

At 31 December 2013, the Company's investment portfolio comprised the following principal holdings:

Name of investment	Strategy	Fair Value £	% of Portfolio Value
Fund of Funds			
Bodleian Partners Class A Limited Partnership	Fund of Funds	31,254,198	27.01%
Sandalwood Debt Fund A Limited Partnership	Fund of Funds	25,282,433	21.85%
Sandalwood Overseas Fund SPC Class L	Fund of Funds	23,339,206	20.17%
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Sandalwood Debt Fund B Limited Partnership	Fund of Funds	6,572,256	5.68%
Elliott International Fund	Multi-strategy credit	4,877,777	4.21%
Cerberus Institutional Partner	Distressed securities	4,358,596	3.76%
Sandalwood Opportunity Fund	Fund of Funds	3,243,341	2.80%
Sandalwood SPV Debt A	Fund of Funds	1,447,434	1.25%
Sub Total		**114,223,204**	**98.70%**
Other (individually less than 1% of portfolio value)		1,508,007	1.30%
Total		**115,731,211**	**100.00%**

At 31 December 2013, the Company's investment portfolio on a look-through basis comprised the following principal holdings:

Name of investment	Strategy	Fair Value £	% of Portfolio Value
Redwood Domestic Fund, LP	Multi-strategy credit	17,195,149	14.86%
Elliott Associates, LP	Multi-strategy credit	16,368,365	14.14%
Third Point Partners (QP), LP	Event Driven	9,765,145	8.44%
Cerberus SPV, LLC	Distressed securities	9,254,532	8.00%
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York Credit Opportunities Fund	Multi-strategy credit	8,155,707	7.05%
Jet Capital Concentrated Fund	Multi-strategy credit	7,445,804	6.43%
Canyon Balanced Fund, L.P.	Multi-strategy credit	6,460,762	5.58%
Scoggin Worldwide Investors, LP	Distressed securities	4,639,192	4.02%
Appaloosa Investment. LP	Distressed securities	4,622,511	3.99%
Cerberus Institutional Partner	Distressed securities	4,587,322	3.96%
Thoroughbred Fund, LP	Multi-strategy credit	4,113,008	3.55%
Sandalwood Opportunity Fund	Fund of Funds	3,914,550	3.38%
Gabriel Capital, LP	Distressed securities	1,294,663	1.12%
Sub Total		**106,708,684**	**92.20%**
Other (individually less than 1% of portfolio value)		9,022,527	7.80%
Total		**115,731,211**	**100.00%**

ACENCIA DEBT STRATEGIES LIMITED
BOARD OF DIRECTORS

The Directors of the Company, all of whom are non-executive and independent, are listed as follows:

Jim Le Pelley (Chairman), born 1949, was called to the Bar in England in 1971 and Guernsey in 1972 and was a partner of Le Pelley & Tostevin from 1972 until 1999, becoming senior partner in 1977. He is Chairman of UK Select Trust Limited, where he has been a director since 1983. He was formerly a non-executive director of International Energy Group Limited (1982 to 2005) and Bristol & West International Limited. He has served on the Board of the Company since its flotation in November 2005.

Richard Battey (Chairman of the Audit Committee), born 1952, is a non-executive director of a number of closed-ended investment funds. He is a Chartered Accountant having qualified with Baker Sutton & Co. in London in 1977. Mr Battey was formerly Chief Financial Officer of CanArgo Energy Corporation from May 2005 to July 2006. Prior to that role he spent 27 years with the Schroder Group. Mr Battey was a director of Schroders (C.I.) Limited in Guernsey from April 1994 to December 2004 where he served as Finance Director and Chief Operating Officer. He was a director of a number of Schroder Group companies involved in banking, investment management, insurance, trusts and private equity, retiring from his last Schroder Group company directorship in December 2008. Mr Battey is currently a non-executive director of the following listed investment companies: Better Capital PCC Limited, Juridica Investments Limited, Princess Private Equity Holdings Limited, Prospect Japan Fund Limited and NB Global Floating Rate Income Fund Limited. He has served on the Board of the Company since June 2007.

William Scott, born 1960, was from 2003 to 2004 Senior Vice President with Financial Risk Management (“FRM”), a leading specialist manager of funds of hedge funds and now a division of Man Group PLC. From 1989 to 2002 he worked at Rea Brothers (subsequently Close Brothers) in investment management and latterly private banking, specialising in fixed income portfolio management. He holds a number of other non-executive directorships including Invista European Real Estate Trust SICAF, The Flight and Partners Recovery Fund Limited, SPL Guernsey ICC Limited, the Sandbourne Fund and various funds managed by Cinven, Man Group and Lloyds Banking Group. He is a Chartered Fellow of the Chartered Institute for Securities & Investment, a Chartered Wealth Manager and is a Chartered Accountant. He has served on the Board of the Company since its flotation in November 2005.

ACENCIA DEBT STRATEGIES LIMITED
DIRECTORS' REPORT

The Directors of AcenciA Debt Strategies Limited ("the Company") are pleased to submit their Annual Report and the Audited Financial Statements (the "Financial Statements") for the year ended 31 December 2013.

The Company
The Company was incorporated as a company with limited liability in Guernsey on 13 October 2005 and is an authorised closed-ended investment scheme domiciled in Guernsey governed by the provisions of the Companies (Guernsey) Law, 2008 and subject to the Authorised Closed-Ended Investment Scheme Rules 2008. The Ordinary Shares are premium listed on the main market of the London Stock Exchange.

Principal Activity and Investment Objective
The Company's primary investment objective is to provide annual returns in excess of 3-month LIBOR plus 5 per cent over a rolling 3 year period, and annual standard deviation of under 5 per cent. The Company's principal activity is to invest in an actively managed portfolio of predominantly debt-oriented hedge funds. Following the EGM on 20 September 2011 the Company will place such redemption notices as necessary ahead of the possible winding up date of 31 December 2014, and will not, in the interim, make any new investments in funds which have lock up or capital commitment periods beyond that date. The future of the Company is discussed below.

Future of the Company and going concern
As per the resolution passed at the EGM dated 20 September 2011 and in accordance with the amended Article 36.1 of the Company's Articles of Incorporation, the Directors shall call a general meeting of Shareholders in September 2014 at which an ordinary resolution shall be proposed to approve the voluntary winding up of the Company (the "2014 Winding-up Resolution") with effect from 31 December 2014. A resolution was also passed at the EGM, that the 2014 Winding-up Resolution shall not be decided on a show of hands vote.

Instead in calculating the poll vote called to determine whether the 2014 Winding-up Resolution has been passed, the aggregate number of votes of the Shareholders voting in favour of the 2014 Winding-Up Resolution shall be that number which is ten times the number of aggregate votes of the Shareholders voting against the 2014 Winding-up Resolution such that the 2014 Winding-up Resolution is passed by a simple majority. This weighting means that if any Shareholder votes in favour of winding up, the winding up resolution will pass.

Whilst the Board cannot be certain what the results of this 2014 Winding-up Resolution will be, the Company has considerable financial resources and after making enquiries the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly the Directors continue to adopt the going concern basis in preparing these Financial Statements. As the Directors intend to serve protective notice on service providers and as 98% of the Company's net assets are represented either by cash or by investments which are expected to be realisable on normal terms at their then stated current net asset values, the net difference between valuing the Company's net assets on a going concern basis or a non-going concern basis is expected to be immaterial.

Should the 2014 Winding-up Resolution be passed, it is the intention of the Directors to propose a resolution whereby, if passed by Shareholders, the Company's investment policy will be amended to arrange an orderly and timely realisation of the Company's investment portfolio with a view to distribute capital back to Shareholders. As announced on 29 January 2014, the Sub-Manager and the Investment Adviser are working together to allow the Company to provide a full cash exit for any Shareholders who so desire in early 2015 and a continuation option for other Shareholders.

Business Review
A review of the business and prospects is contained in detail in the Sub-Manager's Report on pages 5 to 10.

Principal risks and uncertainties for the next financial year
The Board reviews risks each quarter and monitors the existing risk control activity designed to mitigate these risks.

The principal risks associated with the Company are:

- **Operational risk.** The Board is ultimately responsible for all operational facets of performance including cash management, asset management, regulatory and listing obligations. The Company has no employees and so enters into a series of contracts/legal agreements with a series of service providers to ensure that both operational performance and regulatory obligations are met. The Board performs on-going internal monitoring of operational processes and controls and receives regular reports from the administrators of the Company on operational breaches and errors, adherence to policies and procedures and compliance reporting to reduce the risk of fraud and bribery. The Board is aware of the UK Bribery Act 2010 and has adopted an anti-bribery policy relevant to the nature of the Company and its business activities

Principal risks and uncertainties for the next financial year, continued

- **Investment risk.** Although the Board is ultimately responsible for the investment objective and policy, the day-to-day investment strategy is delegated to the Sub-Manager and Investment Adviser. The success of the Company depends on the diligence and skill of the Sub-Manager and Investment Adviser. There is a risk that any underperformance of funds which the Company's capital is invested in would lead to a reduction of the Company's Net Asset Value or of the share price rating. The Board formally monitors the investment performance each quarter, when the Sub-Manager reports on the performance of the Company's portfolio at the quarterly Board meetings. The Sub-Manager and Investment Adviser carry out extensive due diligence on the underlying invested funds and monitor performance regularly. The investment guidelines and restrictions, as detailed in the prospectus of the Company, ensure adequate diversification are regularly monitored by the Sub-Manager

- **Share price discount risk.** The Company has a Discount Target mechanism which was designed to mitigate this risk. The share price is continually monitored and, if appropriate, the Company Enhanced Share buy-back Program is utilised to help control share price discount levels. Furthermore, the Board also considers whether any additional control measures need to be taken. On 29 January 2014, the Company announced a narrowing of the Discount Target from 10% to 7.5%

- **Regulatory risk.** The Company is required to comply with the UK Listing Authority rules and the FCA's disclosure and transparency rules. Any failure to comply could lead to criminal or civil proceedings. The Sub-Manager and Administrator monitor compliance with regulatory requirements and the Administrator reports at quarterly Board meetings.

Results and Distributions

The results for the year are shown in the Statement of Comprehensive Income on page 28.

An interim dividend of 1.92p per Ordinary Share has been declared for the year ended 31 December 2013, taking the total payable for the year to 3.79p (31 December 2012: 3.54p).

Independent Auditor

A resolution to re-appoint BDO Limited as auditor will be proposed at the next Annual General Meeting.

Annual General Meeting

The notice for the Annual General Meeting of the Company, which is to be held on 28 April 2014 at 10am, is set out at the end of this document. Enclosed with this document is a Form of Proxy for use at the meeting.

Members of the Board, including the Chairman and the Audit Committee Chairman, and the Sub-Manager will be in attendance at the AGM and will be available to answer Shareholder questions.

Ordinary Business

The ordinary business of the meeting includes resolutions to adopt the Financial Statements of the Company for the year ended 31 December 2013, to re-elect Mr Battey who is retiring by rotation as Director, to approve the appointment of BDO Limited as auditor of the Company and to authorise the Directors to fix their remuneration.

Special Business

The special business of the meeting comprises a special resolution authorising the Company to purchase its own Ordinary Shares in the market (up to a maximum of 14.99 per cent of the issued share capital of the Company) to be held either in treasury by the Company or subject to cancellation at a minimum price of one penny per share and a maximum price per share equal to the higher of (a) 105 per cent of the average of the middle market quotations for a share as derived from the London Stock Exchange Daily Official List for the five business days immediately before the date of purchase and (b) the higher of the price of the last independent trade and the highest current independent bid at the time of purchase. If approved, the authority to purchase Ordinary Shares will continue until the Annual General Meeting in 2015. The Board intends to seek a renewal of such authority at subsequent annual general meetings.

You will find enclosed with this document a Form of Proxy for use by Shareholders at the Annual General Meeting. Whether or not you propose to attend the Annual General Meeting in person, you are requested to complete and sign the Form of Proxy in accordance with the instructions printed thereon and return it to Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU or by fax to +44 (0) 208 639 2180, as soon as possible but, in any event, so as to arrive no later than 10am on 26 April 2014.

The completion and return of a Form of Proxy will not preclude you from attending the Annual General Meeting and voting in person if you wish to do so.

Investment Manager and Investment Adviser
The Directors are responsible for the determination of the Company's investment policy and have overall responsibility for the Company's activities. The Company has, however, entered into an Investment Management Agreement with Saltus (Channel Islands) Limited under which Saltus (Channel Islands) Limited has been appointed with overall responsibility for the day to day management of the Company's portfolio and the provision of various other management services to the Company, subject to the overriding supervision of the Directors.

The Investment Manager, Saltus (Channel Islands) Limited, and Sub-Manager, Saltus Partners LLP, have appointed Sandalwood Securities, Inc. to act as the Investment Adviser in relation to some of the investments of the Company's portfolio, pursuant to the Investment Advisory Agreement.

The Directors have reviewed the performance and terms of appointment of the Investment Manager, the Sub-Manager and the Investment Adviser and consider that it is in the best interests of all Shareholders for the Company to continue with their appointment on their existing terms of appointment. A summary of these terms, including the management fee, performance fee and notice of termination period, is set out in note 10 of the Financial Statements.

Administrator
Praxis Fund Services Limited was appointed as Administrator and Secretary to the Company pursuant to an Administration and Secretarial Agreement dated 1 October 2010 (the "Administration Agreement). The Administrator receives a monthly fee of 0.125 per cent per annum of the net asset value of the Company up to £50 million and 0.10 per cent per annum of the net asset value of the Company exceeding £50 million.

The Administrator is responsible for certain administrative duties and has been appointed to act as Secretary of the Company in accordance with the Administration Agreement. The Administration Agreement is terminable by either side on 3 months' notice.

Custody Arrangements
The Company's assets are held in custody by Bank Julius Baer & Co Limited (the "Custodian") pursuant to an agreement dated 5 November 2005. The custodian receives a quarterly fee of 0.05 per cent per annum of the net asset value of the Company. The agreement may be terminated by giving not less than three months' written notice or otherwise where either party goes into liquidation.

The Company's assets are registered in the name of the Custodian in each case within a separate account designation but may not be appropriated by the Custodian for its own account.

Both the Administrator and Sub-Manager reconcile the assets held in custody on a monthly basis to statements received from underlying managers or their administrators.

The Board conducts an annual review of the custody arrangements as part of its general internal control review and is pleased to confirm that the Company's custody arrangements continue to operate satisfactorily. The Board also monitors the credit rating of the Custodian, to ensure the financial stability of the Custodian is being maintained to acceptable levels. The current credit rating of the Custodian is A1, which is deemed an acceptable level.

Authorised and Issued Share Capital
The Company has the power to issue an unlimited number of shares of no par value which may be issued as Redeemable Shares or C Shares or otherwise and which may be denominated in Sterling, Euro, US Dollars or any other currency. The Company only has Sterling Ordinary Shares in issue at the date of this report.

Buy Back of Ordinary Shares and Authority to Buy Back Ordinary Shares
By way of a special resolution passed at the Annual General Meeting of the Company on 28 April 2011 and subsequently refreshed at the Extraordinary General Meeting of the Company on 20 September 2011, the Company took authority to make market purchases of fully paid Ordinary Shares, provided that the maximum number of Ordinary Shares authorised to be purchased shall be 14.99 per cent of the issued Share Capital of the Company. By way of a special resolution at the Annual General Meeting held on 25 April 2013, Shareholders approved the renewed authority that the Company be authorised to purchase its own Ordinary Shares. Such authority will expire at the Annual General Meeting of the Company in 2014 unless such authority is varied, revoked or renewed prior to such date by a special resolution of the Company in general meeting. The Board intends to seek a renewal of such authority at the Annual General Meeting of the Company in 2014, notice of which is attached to the Financial Statements.

Buy Back of Ordinary Shares and Authority to Buy Back Ordinary Shares, continued
The minimum price which may be paid for a Share pursuant to such authority is one penny. The maximum price which may be paid for a Share, is an amount equal to the higher of 105 per cent of the average of the middle market quotations for a Share taken from the Official List for the five business days immediately preceding the date on which the Share is purchased, or the higher of the price of the last independent trade and the highest current independent bid at the time of purchase.

The Company did not acquire or cancel any Ordinary Shares during the year ended 31 December 2013. During the year ended 31 December 2012, the Company acquired and cancelled 2,984,269 Ordinary Shares at an average price of 79.69p per Ordinary Share. Further details are given in note 17 to the Financial Statements.

At the EGM on 20 September 2011 it was also proposed that if in the six month period to 30 June 2013, the Company's Shares have persistently traded at an average discount of greater than 10% to its prevailing NAV per Share, the Board will seek to return capital of up to 20% of the Company's Shares in issue as at 30 June 2013. On 3 July 2013, the Board announced their intention to a return of capital to Shareholders via an Enhanced Share Buy-back Program of up to 20% of the Shares in issue during the 12 month period to June 2014. Since 3 July 2013 however, the discount has been consistently narrower than the 10% target, therefore a return of capital had not been made in the financial year. On the 29 January 2014, the Board announced that it was narrowing the discount target from 10% to 7.5% with immediate effect, and would operate the enhanced buy-back programme subject to the discount being wider than this level. The Board will continue to keep this discount target under review, and may reduce it further during the course of 2014.

Directors
The Directors, all of whom are independent non-executive, are listed on page 12.

None of the Directors has a service contract with the Company and no such contracts are proposed. During the current and prior years the basic fee paid to each independent non-executive director was £22,500 per annum, except for the Chairman who received £32,500 per annum and Mr R Battey who receives an additional £5,000 per annum for being Chairman of the Audit Committee. The additional fees received by the Chairman and Audit Committee Chairman are paid as a result of the extra responsibilities these roles demand. No other fees were paid to the Directors.

The shareholdings of the Directors' and Directors' families' in the Company at 31 December 2013 were as follows:

	31 December 2013		31 December 2012	
Name	**No. of Ordinary Shares**	**Percentage**	**No. of Ordinary Shares**	**Percentage**
J Le Pelley (Chairman)	898,740	0.77%	598,740	0.52%
R Battey	-	-	-	-
W Scott	5,173	0.00%	5,173	0.00%

There have been no changes to the Directors' shareholdings since 31 December 2013.

Substantial Shareholdings
As of 3 March 2014, being the latest practicable date prior to the publication of these Financial Statements, the Company has been notified of the following shareholdings in excess of 5% of the issued Share Capital:

Name	No. of Ordinary Shares	Percentage
Waverton Investment Management	10,711,230	9.16%
Weiss Asset Management	10,459,379	8.95%
Saltus Partners	9,967,424	8.53%
HSBC Private Bank	7,892,426	6.75%
Smith & Williamson	6,322,825	5.41%
BNP arbitrage account	5,932,171	5.07%

All percentages given are based on the share register as at 3 March 2014 and may not take account of share buybacks for cancellation made but not yet processed on the register.

Related Parties
Details of transactions with related parties are disclosed in note 25 to these Financial Statements.

Directors' Responsibilities
The Directors are responsible for preparing the Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the Companies (Guernsey) Law, 2008 for each financial period which give a true and fair view of the state of affairs of the Company and its profit or loss for that period. International Accounting Standard 1 requires that Financial Statements present fairly for each financial period the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

In preparing Financial Statements the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Present information including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Make judgements and estimates that are reasonable and prudent; and
- Prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for the keeping of proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies (Guernsey) Law, 2008 and the Listing Rules of the London Stock Exchange. They are also responsible for the system of internal controls, safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with these requirements in preparing the Financial Statements.

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

So far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware, having taken all the steps the Directors ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Responsibility Statement
Each of the Directors, whose names and functions are listed on page 12, confirms to the best of each person's knowledge and belief:

- the Financial Statements, prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union and in accordance with the requirements of the London Stock Exchange, give a true and fair view of the assets, liabilities, financial position and profit of the Company;

- the Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy; and

- the Financial Statements including information detailed in the Sub-Manager's report, Chairman's Statement and notes to the Financial Statements, provides a fair view of the information required by:

    a) DTR 4.1.8 of the Disclosure and Transparency Rules, being a fair review of the Company Business together with a description of the principal risks and uncertainties facing the Company; and
    b) DTR 4.1.11 of the Disclosure and Transparency Rules, being an indication of important events that have occurred since the end of the financial year and the likely future development of the Company.

Listing Requirements
Throughout the year and since being admitted to the London Stock Exchange maintained by the Financial Conduct Authority, the Company has complied with the Listing Rules of the UK.

Corporate Governance
Under The UK Listing Regime the Company is a premium listed entity. The UK Listing Authority requires all overseas companies with a premium listing (such as the Company), to comply with the provisions of the UK Corporate Governance Code. The UK Corporate Governance Code (the "Code") is available on the Financial Reporting Council website, www.frc.org.uk.

The Board places a high degree of importance on maintaining high standards of corporate governance and has also 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 ("AIC Guide"). The AIC Code, as explained in the AIC Guide, addresses all the principles set out in the Code. The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Code), will provide better information to Shareholders. The AIC code is available on the AIC website, www.theaic.co.uk.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except as set out below.

The UK Code includes provisions relating to:
- the role of the chief executive
- executive directors' remuneration
- the need for an internal audit function
- whistle-blowing policy

For the reasons set out in the AIC Guide, and as explained in the Code, the Board considers that these provisions are not relevant to the position of the Company, being an authorised closed-ended investment scheme in Guernsey. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions. Furthermore, the Board has also taken note of the Code of Corporate Governance issued by the Guernsey Financial Services Commission ("Guernsey Code") which became effective on 1 January 2012. The Guernsey Code provides a governance framework for GFSC licensed entities, authorised and registered collective investment schemes. Companies reporting against the Code or the AIC Code are deemed to satisfy the provisions of the Guernsey Code.

The Financial Reporting Council issued a revised Corporate Governance Code in September 2012, for reporting periods beginning on or after 1 October 2012. In February 2013, the AIC updated its Code of Corporate Governance (including the Guernsey edition) and its Guide to Corporate Governance to reflect the relevant changes to the FRC document. The updates published by the AIC are consistent with the Corporate Governance Code issued by the Financial Reporting Council. Changes to the AIC Code are effective for reporting periods beginning on or after 1 October 2012.

As at 31 December 2013, the Company complied substantially with the relevant provisions of the AIC Code and it is the intention of the Board that the Company will comply with those provisions throughout the year ending 31 December 2014, with exception of the provisions listed below:

- *The appointment of a Senior Independent Director:* Given the size and composition of the Board it is not felt necessary to separate the roles of Chairman and Senior Independent Director. The Board considers that all the independent Directors have different qualities and areas of expertise on which they may lead where issues arise and to whom concerns can be conveyed.
- *Establishment of a Nomination Committee:* The Board comprises three non-executive Directors, therefore the Board does not consider it necessary to establish a Nomination Committee. The Board as a whole monitors performance and plans for succession of the Board, through Board meetings. The Board has due regard for the benefits of greater diversity, including gender, and will consider prospective candidates based on merit and against objective criteria in the context of the skills and experience the Board as a whole requires in order to be effective.
- *Establishment of a Management Engagement Committee:* The Board has not deemed it necessary to appoint a management engagement committee as a result of being comprised wholly of non-executive Directors. The Board is responsible for the review of the performance of the Sub-Manager and Investment Adviser in relation to the performance of the investment portfolio against agreed benchmarks and other key performance indicators.
- *Establishment of a Remuneration Committee:* Since all of the Directors are non-executive, the Board does not consider it necessary to establish a remuneration committee.

The Board
As at 31 December 2013, the Board of Directors comprised three non-executive Directors as set out below. The Company has no executive Directors nor any employees. The biographies of the Board are disclosed on page 12.

Mr J Le Pelley is the Chairman of the Board.

Mr R Battey is the Chairman of the Audit Committee.

Under the Company's Articles of Association it is required that all non-executive Directors are appointed for a fixed term lasting no more than three years after an individual Director's election or re-election by Shareholders at a general meeting. Any Director who was elected or last re-elected at or before the Annual General Meeting ("AGM") held in the third year before the current year shall retire by rotation. Therefore, up to one-third of the number of Directors in office shall retire by rotation at each AGM. In the event that their number is not a multiple of three, the number nearest to but not exceeding one-third shall retire from office. In addition, any Director who is also a director or Partner of the Investment Manager or the Sub-Manager, will be subject to annual re-election. Consequently the Director who will retire by rotation and offers himself for re-election at the next AGM of the Company is Mr Battey.

Although no formal training is given to Directors by the Company, the Directors are kept up to date on various matters such as Corporate Governance issues through bulletins and training materials provided from time to time by the Company Secretary, the AIC and other professional firms.

The Board receives monthly reports and meets at least quarterly to review the overall business of the Company and to consider matters specifically reserved for its disposal. At these meetings the Board monitors the investment performance of the Company. The Directors also review the Company's activities every quarter to ensure that it adheres to the Company's investment policy. Additional ad hoc reports are received as required and Directors have access at all times to the advice and services of the Company Secretary, who is responsible for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with.

The Board monitors the level of the share price premium and discount to determine what action is desirable (if any) to reduce it. As a result on 29 January 2014, the Board announced a discount target reduction from 10% to 7.5%, they have committed to keep this target under review and may reduce it further during the course of 2014, market conditions permitting.

A procedure has been adopted for the Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

The Board and relevant personnel of the Sub-Manager and Investment Adviser acknowledges and adheres to the Model Code of Directors Dealings contained in the Listing Rules.

Directors' Performance Evaluation
The Board has established an informal system for the evaluation of its own performance and that of the Company's individual Directors. It considers this to be appropriate having regard to the non-executive role of the Directors and the significant outsourcing of services by the Company to external providers.

The Directors undertake, on an annual basis, a verbal assessment of the effectiveness of the Board particularly in relation to its oversight and monitoring of the performance of the Investment Manager and other key service providers. Evaluation considers the balance of skills experience, independence and knowledge of the Company. The Board also evaluates the effectiveness of each of the Directors and in particular any who are proposed for the re-election at each Annual General Meeting of the Company. The Directors absented themselves from those parts of the meeting that dealt respectively with their own performance or re-election. The Board is pleased to confirm that the Director, Mr R Battey, put forward for re-election continues to perform effectively and demonstrates commitment to his role.

Directors' Remuneration
No Director has a service contract with the Company and details of the Directors' fees are shown on page 51.

Directors' and Officers' Liability Insurance
The Company maintains insurance in respect of directors' and officers' liability in relation to their acts on behalf of the Company. Suitable insurance is in place, having been renewed on 18 November 2013.

Relations with Shareholders
The Company reports to Shareholders twice a year by way of the Interim Report and the Annual Report and Audited Financial Statements. In addition, net asset values are published monthly and the Sub-Manager publishes monthly fact sheets and quarterly newsletters and portfolio transparency reports on its website www.acencia.co.uk.

The Board receives quarterly reports on the Shareholder profile of the Company and regular contact with major Shareholders is undertaken by the Company's corporate brokers and the executives of the Investment Manager. Any issues raised by major Shareholders are reported to the Board on a regular basis.

The Chairman and individual Directors are willing to meet major Shareholders to discuss any particular items of concern regarding the performance of the Company. Members of the Board, including the Chairman and the Audit Committee Chairman, and the Sub-Manager are also available to answer any questions which may be raised by any Shareholder at the Company's Annual General Meeting.

Audit Committee
The Audit Committee was originally formed in December 2006 and comprises all Board members, and meets at least twice a year. Mr R Battey is Chairman of the Audit Committee. As all Directors are non-executive whilst also taking into account the size and composition of the Board, it was deemed appropriate that all Board members are also members of the Audit Committee.

The key objectives of the Audit Committee include a review of the Company's Financial Statements to ensure they are prepared to a high standard and comply with all relevant legislation and guidelines, where appropriate, and to maintain an effective relationship with the external auditor. With respect to the external auditor, the Audit Committee's role will include the assessment of their independence, review of auditor's engagement letter, remuneration and any non-audit services provided by the auditor. For the principal duties and report of the Audit Committee please refer to the Report of the Audit Committee on page 22.

Directors' Attendance
The table below shows the attendance at Board and Audit Committee meetings during the year. There were five formal Board meetings and three Audit Committee meetings held.

Name	Board	Audit Committee
J Le Pelley (Chairman)	4	3
R Battey (Audit Committee Chairman)	5	3
W Scott	5	3

Internal Control Review and risk management system
The Board of Directors is responsible for putting in place a system of internal controls relevant to the Company and for reviewing the effectiveness of those systems. The review of internal controls is an on going process for identifying and evaluating the risks faced by the Company, and which are designed to manage risks rather than eliminate the risk of failure to achieve the Company's objectives.

It is the responsibility of the Board to undertake risk assessment and review of the internal controls in the context of the Company's objectives that cover business strategy, operational, compliance and financial risks facing the Company. These internal controls are implemented by the Company's three main service providers, the Investment Manager, the Administrator and the Custodian. The Board receives periodic updates from these main service providers at the quarterly Board meetings of the Company. The Board is satisfied that each service provider has effective controls in place to control the risks associated with the services that they are contracted to provide to the Company and are therefore satisfied with the internal controls of the Company.

The Board of Directors considers the arrangements for the provision of Investment Management, Administration and Custody services to the Company on an on-going basis and a formal review is conducted annually. As part of this review the Board considered the quality and continuity of the personnel assigned to handle the Company's affairs, the investment process and the results achieved to date.

Social, ethical and environmental concerns have been considered by the Board. Whilst the Board does not consider it appropriate to put social, ethical and environmental policies in place within an investment company investing in financial instruments, they do confirm that the Company does not have any investments that are illegal or immoral.

Anti-bribery and Corruption

The Board acknowledges that the Company's international operations may give rise to possible claims of bribery and corruption. In consideration of the recently enacted UK Bribery Act, at the date of this report the Board had conducted an assessment of the perceived risks to the Company arising from bribery and corruption to identify aspects of business which may be improved to mitigate such risks. The Board has adopted a zero tolerance policy towards bribery and has reiterated its commitment to carry out business fairly, honestly and openly.

Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act ("FATCA") became effective on 1 January 2013. The legislation is aimed at determining the ownership of assets of US persons in foreign accounts and improving US tax compliance with respect to those assets. The States of Guernsey has recently entered into an intergovernmental agreement ("IGA") with US Treasury in order to facilitate the requirements under FATCA. The Board is in the process of ensuring the Company complies with FATCA's requirements.

By order of the Board

J Le Pelley	**R. Battey**
Chairman	Director

Date: 1 April 2014

REPORT OF THE AUDIT COMMITTEE

The Company has established an Audit Committee with formally delegated duties and responsibilities within written terms of reference (which are available on the Company website www.acencia.co.uk). The Audit Committee has been in operation throughout the year under review.

Chairman and Membership

The Audit Committee is chaired by Mr Richard Battey. He and its other members, Mr William Scott and Mr Jim Le Pelley, are all independent directors. 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 Sub-Manager and Investment Adviser. The membership of the Audit Committee and its terms of reference are kept under review. The Chairman of the Audit Committee is a non-UK tax resident. The relevant qualifications and experience of each member of the Audit Committee is detailed on page 12 of these Financial Statements. The Audit Committee meets no less than twice in a year in Guernsey, and meets the external auditor at least twice a year also in Guernsey. The Audit Committee met three times in the year to 31 December 2013.

Duties

The Audit Committee's main role and responsibilities is to provide advice to the Board on whether the Annual Report and Audited Financial Statement and Interim Report and Unaudited Financial Statements, taken as a whole, are fair, balanced, and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The Audit Committee gives full consideration and recommendation to the Board for the approval of the contents of the half yearly and annual Financial Statements of the Company, which includes reviewing the external auditor's report.

The other principal duties, amongst others, is to consider the appointment of the external auditor, to discuss and agree with the external auditor the nature and scope of the audit, to keep under review the scope, results and effectiveness of the audit and the independence and objectivity of the auditor, to review the external auditor's letter of engagement, the auditor's planning report for the following financial year and management letter and to analyse the key procedures adopted by the Company's service providers.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of the Company's internal control and risk management systems. The Audit Committee also focuses particularly on compliance with legal requirements, accounting standards and the relevant Listing Rules and ensuring that an effective system of internal financial and non-financial controls is maintained.

The Audit Committee also reviews, considers and, if thought appropriate, recommends for the purposes of the Company's Financial Statements valuations prepared by the Sub-Manager and Investment Adviser. These valuations are the most critical element in the Company's Financial Statements and the Audit Committee questions them carefully.

Financial Statements

The Audit Committee has an active involvement and oversight in the preparation of both the half year and annual Financial Statements and in doing so is responsible for the identification and monitoring of the principal risks associated with the preparation of the Financial Statements. The principal risks identified in the preparation of these Financial Statements are as follows:

- Going concern – In consideration of the going concern basis for the Financial Statements, the Audit Committee assessed the financial resources of the Company and considered its ability to continue in operational existence for the foreseeable future. They also made enquires with the Sub-Manager and Investment Adviser on the future of the Company and, in particular, the continuation option for Shareholders of the Company.

- Valuation of the Investments – The Audit Committee considers the net asset values reported by the underlying fund managers / administrators to best represent the fair value of the investments held by the Company. The Audit Committee discusses the fair value of the investments with the Sub-Manager, Administrator and Auditor, and considers any appropriate discounts to the net asset values of the funds reported by the fund managers / administrator. In particular, in these discussions the Audit Committee assesses the fair value of any illiquid investments, directly or indirectly, held by the Company.

Further details of these risks are disclosed and discussed further within the Directors' Report and Note 3 of these Financial Statements.

Auditor
The Audit Committee is responsible for overseeing the Company's relationship with the external auditor, including making recommendations to the Board on their appointment of the external auditor and their remuneration. BDO Limited has been the Company's external auditor since the Company's inception. The lead audit director, Mr Justin Hallett was initially appointed for the year end 31 December 2012 audit in accordance with normal audit director rotation arrangements. The Board has noted the revisions to the AIC Code issued in February 2013, in particular the recommendation to put the external audit out to tender at least every ten years. The Audit Committee has assessed the performance of the current auditor, as detailed below, and is satisfied with its effectiveness and as such no change in auditor is proposed.

To assess the effectiveness of the external auditor, the Audit Committee reviewed:

- The external auditor's fulfilment of the agreed audit plan and variations from it;
- The Audit Committee Report from the auditor highlighting the major issues that arose during the course of the audit; and
- Feedback from the Sub-Manager and Administrator evaluating the performance of the audit team.

Where non-audit services are to be provided to the Company by the auditor, full consideration of the financial and other implications on the independence of the auditor arising from any such engagement will be considered before proceeding. All non-audit services are pre-approved by the Audit Committee after it is satisfied that relevant safeguards are in place to protect the auditors' objectivity and independence. During the year ended 31 December 2013, the auditor provided non-audit services in relation to providing advice to the Board on their correspondence with the Irish Auditing & Accounting Supervisory Authority, as referred to in Note 2 of these Financial Statements. At an Audit Committee meeting in December 2013, Mr Hallett confirmed that this had not impacted their independence and outlined the reasons for this. The Audit Committee considered this and were satisfied these non-audit services had no bearing on the independence of Auditor.

To fulfil its responsibility regarding the independence of the external auditors, the Audit Committee considered:

- changes in audit personnel in the audit plan for the current year;
- a report from the external auditor describing its arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the external auditor,

Internal Controls
The Sub-Manager and Administrator together maintain a system of internal control on which they report to the Board. The Board has reviewed the need for an internal audit function and has decided that the systems and procedures employed by the Sub-Manager and Administrator, 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.

The Audit Committee is responsible for reviewing and monitoring the effectiveness of the internal financial control systems and risk management systems on which the Company is reliant. These systems are designed to ensure proper accounting records are maintained, that the financial information on which the business decisions are made and which is issued for publication is reliable, and that the assets of the Company are safeguarded. Such a system of internal financial controls can only provide reasonable and not absolute assurance against misstatement or loss.

In accordance with the guidance published in the Turnbull Report by the Financial Reporting Council (the "FRC"), the Audit Committee has reviewed the Company's internal control procedures. These internal controls are implemented by the Company's two main service providers, the Sub-Manager and the Administrator. The Audit Committee has performed reviews of the internal financial control systems and risk management systems during the year. The Audit Committee is satisfied with the internal financial control systems of the Company.

On behalf of the Audit Committee

R Battey
Audit Committee Chairman
1 April 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ACENCIA DEBT STRATEGIES LIMITED

Opinion on the Financial Statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

This opinion is to be read in the context of what we say below.

Emphasis of matter - going concern

In forming our opinion on the Financial Statements, which is not modified, we have considered the adequacy of the disclosure made in note 3 to the Financial Statements concerning the future of the Company. As disclosed in note 3, there is a shareholder continuation vote due in September 2014 which is weighted such that, if any shareholder votes in favour of winding up, the winding-up resolution will be passed. Whilst the Directors cannot be certain what the results of this 2014 Winding-up Resolution will be, the Company has considerable financial resources and after making enquiries the Directors have a reasonable expectation that the Company has adequate resources to be able to continue in operational existence for the foreseeable future. This, together with the Directors consideration of continuation options has resulted in the Directors continuing to adopt the going concern basis in preparing these Financial Statements. However, until the outcome of future proposals and resolutions are known, the existence of the Company beyond the 2014 winding-up vote is not certain. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Should the shareholder vote for the Company to be wound up be passed, the Financial Statements would need to be prepared on a basis other than going concern. The Financial Statements do not currently include any adjustments that would result if the Company was unable to continue as a going concern.

What we have audited

We have audited the Financial Statements of AcenciA Debt Strategies Limited for the year ended 31 December 2013 which comprise the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Statement of Financial Position, the Statement of Cashflows and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Respective responsibilities of the Directors and auditor

As explained more fully in the Directors' Responsibilities statement within the Directors' Report, 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). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

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 is 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ACENCIA DEBT STRATEGIES LIMITED, continued

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.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the level by which misstatement individually or in aggregate, including omissions, could influence the economic decisions of the relevant users.

A performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the Financial Statements exceeds materiality for the Financial Statements as a whole. Misstatements may be considered material for reasons other than size as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements.

Based on our professional judgment, we determined materiality for the Financial Statements as a whole to be £1,613,000 which is based on a level of 1.25% of total assets. On the basis of our risk assessment, together with our assessment of the Company's control environment, our professional judgment is that performance materiality for the Financial Statements is 70% of the materiality.

International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower materiality for particular classes of transaction, balances or disclosures for which misstatements of lesser amounts than materiality for the Financial Statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements. In this context, we set a lower level of materiality to apply to investment income and related party expenses. We determined materiality for this area to be £48,000.

We agreed with the Audit Committee that we would report all audit differences in excess of £48,000, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds.

Overview of the scope of our audit

The Company is an authorised closed-ended investment scheme. The Company's investments are managed by an independent investment manager, Saltus (Channel Islands) Limited (the "Investment Manager"). The Financial Statements, which remain the responsibility of the Directors, are prepared on their behalf by the Company's Administrator, Praxis Fund Services Limited.

In establishing our overall audit approach we assessed the risk of material misstatement. This assessment takes into account the likelihood, nature and potential magnitude of any misstatement. As part of this risk assessment we considered the Company's interaction with the Investment Manager, Administrator and Custodian. We assessed the control environment in place at the Investment Manager and the Administrator to the extent that it was relevant to our audit. Following this assessment, we applied professional judgement to determine the extent of testing required over each item in the Financial Statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ACENCIA DEBT STRATEGIES LIMITED, continued

Our assessment of risks of material misstatement and our audit approach to these risks

In arriving at our audit opinion above on the Financial Statements, the risks of material misstatement that had the greatest effect on our audit were going concern and the valuation and existence of investments.

These risks are disclosed further in the Report of the Audit Committee on pages 22 and 23.

<u>Going concern</u>

We focused on this area because of the pending shareholder continuation vote in September 2014 which is weighted such that, if any shareholder votes in favour of winding up, the winding-up resolution will be passed. As disclosed in note 3 of the Financial Statements, the Company has considerable financial resources and it is expected that, should the vote be passed, a full cash exit option will be provided for those shareholders that do not wish to continue. For those shareholders that do wish to continue, the Directors expect to offer a continuation option.

Our procedures primarily consisted of discussions with the Audit Committee and Investment Manager and consideration and challenge of their going concern conclusions. We also reviewed the resources available to the Company and considered the liquidity of underlying investments.

<u>Investments</u>

We focused on this area because investments represent the principal element of the Financial Statements and consist primarily of fund of funds. As the majority of the investment portfolio is unlisted, the availability of external evidence regarding pricing and valuation is limited. This is a key accounting estimate where there is an inherent risk of management override arising from the investment valuations being prepared by the Investment Manager, who is remunerated based on the net asset value of the funds, derived using those valuations.

Our procedures included:-

- Testing the existence of the investment portfolio by agreeing the holdings to the independent custodian confirmation.
- Agreeing the investment valuations to the net asset value statements issued by the respective underlying fund administrators.
- Obtaining the latest audited Financial Statements of the principal underlying funds and reviewing for utilisation of applicable fair value policies, implications contained within their audit report and consistency of the audited financial statement net asset value to the net asset value provided by the underlying fund administrator in relation to that period end.
- Considering the redemption notice periods of the underlying funds to ascertain, verify and consider the impact of redemption periods on the Directors' assessment of fair value of the investments.
- Discussing with both the board and the sub-manager and, after challenging their responses and obtaining supporting information, determining whether realisation at net asset value is achievable.
- Considering post year end sales and sale negotiations and their impact on the carrying value of the investments at the year end.
- Considering whether net asset value represents fair value in the light of knowledge gained during the audit and whether any adjustments were required.
- For the Sandalwood fund of funds, which represents the largest proportion of the investment portfolio and are managed by the Company's investment adviser, in addition to the above we also:-
    - Agreed a sample of the underlying investment valuations to the net asset value statements issued by the underlying fund administrator.
    - Considered the control environment of the Sandalwood fund administrator.
    - Discussed with the sub-manager and the investment adviser and, after challenging their responses and obtaining supporting information, determining whether realisation at net asset value is achievable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ACENCIA DEBT STRATEGIES LIMITED, continued

Matters on which we are required to report by exception

We have nothing to report in respect of the following:-

Under the ISAs (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 during 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 to be 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.

Under the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company; or
- the Financial Statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations, which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Justin Marc Hallett FCA
For and on behalf of BDO Limited
Chartered Accountants and Recognised Auditor
Place du Pré
Rue du Pré
St Peter Port
Guernsey

Date: 1 April 2014.

ACENCIA DEBT STRATEGIES LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2013

	Notes	31 December 2013 £	31 December 2012 £
Net gains on investments at fair value through profit or loss	13	13,346,072	7,833,618
Other gains and losses	7	155,522	3,673,743
		13,501,594	11,507,361
Income			
Interest receivable	8	4,014	7,804
Expenses			
Net management fees	10	307,648	102,160
Performance fees	10	(1,307,490)	(304,846)
Administration fees	10	(146,152)	(161,405)
Directors' fees	10	(82,500)	(82,500)
Custodian fees	10	(63,650)	(59,638)
Other expenses	10	(320,040)	(328,994)
		(1,612,184)	(835,223)
Net expenses		(1,608,170)	(827,419)
Operating profit		**11,893,424**	**10,679,942**
Finance costs	9	(126,018)	(125,618)
Profit for the financial year		**11,767,406**	**10,554,324**
Total comprehensive income		**11,767,406**	**10,554,324**
Basic and Diluted Earnings per Ordinary Share	12	**10.05p**	**8.95p**
Weighted Average Number of Ordinary Shares outstanding	12	117,087,877	117,990,670

The Company has no components of “Other Comprehensive Income”.

All items in the above statement derive from continuing operations.

All income is attributable to the Ordinary Shares of the Company.

The accompanying notes on pages 32 to 56 form an integral part of the Financial Statements.

ACENCIA DEBT STRATEGIES LIMITED
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2013

	Notes	Share Capital £	Share Premium £	Distributable Reserve £	Accumulated losses £	Total Equity £
Year to 31 December 2013						
At 31 December 2012		-	-	**148,056,129**	**(27,006,924)**	**121,049,205**
Total comprehensive income for the year		-	-	-	11,767,406	11,767,406
Transactions with owners:						
Dividends paid	4	-	-	-	(4,308,834)	(4,308,834)
Total transactions with owners		-	-	-	(4,308,834)	(4,308,834)
At 31 December 2013		-	-	**148,056,129**	**(19,548,352)**	**128,507,777**

	Notes	Share Capital £	Share Premium £	Distributable Reserve £	Accumulated losses £	Total Equity £
Year to 31 December 2012						
At 31 December 2011		**-**	**-**	**150,434,377**	**(33,516,670)**	**116,917,707**
Total comprehensive income for the year		-	-	-	10,554,324	10,554,324
Transactions with owners:						
Ordinary Shares acquired and cancelled during the year	17	-	(2,378,248)	-	-	(2,378,248)
Transfer to Share Premium	18(b)	-	2,378,248	(2,378,248)	-	-
Dividends paid			-	-	(4,044,578)	(4,044,578)
Total transactions with owners		-	-	(2,378,248)	(4,044,578)	(6,422,826)
At 31 December 2012		-	-	**148,056,129**	**(27,006,924)**	**121,049,205**

The accompanying notes on pages 32 to 56 form an integral part of the Financial Statements.

ACENCIA DEBT STRATEGIES LIMITED
STATEMENT OF FINANCIAL POSITION
At 31 December 2013

	Notes	31 December 2013 £	31 December 2012 £
Non-current assets			
Investments at fair value through profit or loss	13	115,731,211	113,479,061
Current assets			
Derivatives	23	1,831,294	1,507,937
Investment sales proceeds receivable	13	742,960	1,427,069
Prepayments		78,977	34,942
Other receivables		128,292	227,318
Cash and cash equivalents	14	10,557,819	4,971,673
Total current assets		13,339,342	8,168,939
Current liabilities			
Other payables	16	562,776	598,795
Total current liabilities		562,776	598,795
Net current assets		12,776,566	7,570,144
Net assets		**128,507,777**	**121,049,205**
Equity			
Share capital	17	-	-
Share premium	18 (a)	-	-
Distributable reserve	18 (b)	148,056,129	148,056,129
Accumulated losses	18 (c)	(19,548,352)	(27,006,924)
Total equity		**128,507,777**	**121,049,205**
Net asset value per Ordinary Share	19	**109.75p**	**103.38p**
Number of Ordinary Shares	17	**117,087,877**	**117,087,877**

The Financial Statements on pages 28 to 56 were approved by the Board of Directors and authorised for issue on 1 April 2014. They were signed on its behalf by:-

J Le Pelley
Director

R Battey
Director

The accompanying notes on pages 32 to 56 form an integral part of the Financial Statements.

ACENCIA DEBT STRATEGIES LIMITED
STATEMENT OF CASH FLOWS
For the year ended 31 December 2013

	Notes	31 December 2013 £	31 December 2012 £
Cash inflows from operating activities			
Operating profit for the year		11,893,424	10,679,942
Decrease/(increase) in prepayments and other receivables		54,991	(98,031)
(Decrease)/increase in other payables		(36,019)	425,354
		11,912,396	11,007,265
Purchase of investments	13 & 20	(3,363,625)	(4,107,508)
Sales of investments	13 & 20	14,969,521	6,876,298
		23,518,292	13,776,055
Adjustment for:			
Movement in unrealised gains on investments	13	(5,918,565)	(4,739,736)
Realised gains on investments	13	(7,255,372)	(3,091,012)
Movement in unrealised gains on forward foreign exchange contracts	7 & 23	(323,357)	(1,641,520)
Net cash inflow from operating activities		**10,020,998**	**4,303,787**
Cash outflows from financing activities			
Ordinary Shares acquired and cancelled		-	(2,408,838)
Dividends paid	4	(4,308,834)	(4,044,578)
Facility fee paid	22	(125,000)	(125,000)
Bank interest paid		(1,018)	(618)
Net cash outflow from financing activities		**(4,434,852)**	**(6,579,034)**
Net increase/(decrease) in cash and cash equivalents		**5,586,146**	**(2,275,247)**
Cash and cash equivalents at beginning of year		**4,971,673**	**7,246,920**
Cash and cash equivalents at end of year	14 & 20	**10,557,819**	**4,971,673**

The accompanying notes on pages 32 to 56 form an integral part of the Financial Statements.

1. GENERAL INFORMATION

The Company was incorporated as a company with limited liability in Guernsey on 13 October 2005 and is an authorised closed-ended investment scheme domiciled in Guernsey. The Ordinary Shares are listed on the London Stock Exchange.

The Company invests in a portfolio consisting primarily of debt-oriented hedge funds. The Company's investment strategy is to provide annual returns in excess of 3-month LIBOR plus 5% over a rolling 3 year period, and annual standard deviation of under 5 per cent.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union, which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and International Accounting Standards ("IAS") and Standing 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 London Stock Exchange.

Accounting Convention

The Financial Statements have been prepared under the historical cost or amortised cost basis, except for the revaluation of certain financial instruments. The preparation of Financial Statements in conformity with International Financial Reporting Standards requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates and judgements are discussed in note 3. The principal accounting policies adopted are set out below.

The Directors believe that the annual report contains all of the information required to enable Shareholders and potential investors to make an informed appraisal of the investment activities and profits and losses of the Company for the year to which it relates and does not omit any matter or development of significance.

New Accounting Standards, interpretations and amendments adopted

A number of new standards, interpretations and amendments effective for the first time for periods beginning on (or after) 1 January 2013, have been adopted in these Financial Statements.

- IAS 1 Presentation of Items of Other Comprehensive Income- Amendments to IAS 1;
- IAS 1 Clarification of the requirement for comparative information (Amendment);
- IFRS 7 Financial Instruments: Disclosures- Offsetting Financial Assets and Financial Liabilities- Amendments to IFRS 7;
- IFRS 13 Fair Value Measurement

The above standards do not impact the annual Financial Statements of the Company, except for IFRS 13, 'Fair Value Measurement'.

- IFRS 13, 'Fair value measurement', establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between willing market participants at the measurement date. Notwithstanding the above, the adoption of this new Standard has had no significant impact on the fair value measurements of the Company's assets and liabilities. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 'Financial Instruments: Disclosures'. The Company provides these disclosures in Note 5 of these Financial Statements.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Accounting Standards or interpretations, not yet adopted

A number of new standards, amendments to standards and interpretations which have been issued or amended by the IASB, are not yet effective and have not been applied in preparing these annual Financial Statements. The following standards will in the future apply to the Company:

- IAS 27 Separate Financial Statements – amended by Investment Entities, effective for annual periods beginning on or after 1 January 2014.
- IAS 28 Investments in Associates – amended by Investment Entities, effective for annual periods beginning on or after 1 January 2014.
- IAS 32 Financial Instruments: Presentation - amendments to application guidance on the offsetting of financial assets and financial liabilities effective for annual periods beginning on or after 1 January 2014.
- IFRS 7 Financial Instruments: Disclosures - amendments requiring disclosures about the initial application of IFRS 9 effective for annual periods beginning on or after 1 January 2015 (or otherwise when IFRS 9 is first applied).
- IFRS 9 Financial Instruments - accounting for financial liabilities and derecognition effective for annual periods beginning on or after 1 January 2017. (Pending EU endorsement)
- IFRS 10 Consolidated Financial Statements – amended by Investment Entities, effective for annual periods beginning on or after 1 January 2014.
- IFRS 11 Joint Arrangements- replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly controlled Entities- Non-monetary Contributions by Venturers effective for annual periods beginning on or after 1 January 2014.
- IFRS 12 Disclosure of Interests in Other Entities- disclosure requirements for all forms on interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles, effective for annual periods beginning on or after 1 January 2014.

The Directors have considered the above standards and determined that it is not practicable to provide a reasonable estimate of the effect of the these standards until a detailed review has been completed.

Foreign Currencies

Foreign currency assets and liabilities are translated into Sterling at the rate of exchange ruling at the reporting date (31 December 2013: £1: US$ 1.6557; 31 December 2012: £1: US$ 1.6255 and £1: EUR 1.2317). Transactions in foreign currencies are translated at the rate of exchange ruling on the transaction date. Differences arising are dealt with in the Statement of Comprehensive Income.

The Board of Directors considers Sterling as the currency in which the Company measures its performance and reports its results, as well as the currency in which capital is raised, dividends are declared and paid and capital returned. Further the Company hedges, although not fully, against US dollar exchange rate movements. The financial information is presented in Sterling, which is the Company's functional and presentation currency.

Financial Instruments

Financial assets and financial liabilities are recognised in the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are only offset and the net amount reported in the Statement of Financial Position and Statement of Comprehensive Income when there is a currently enforceable legal right to offset the recognised amounts and the Company intends to settle on a net basis or realise the asset and liability simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Financial Assets
The classification of financial assets at initial recognition depends on the purpose for which the financial asset was acquired and its characteristics.

The Company's financial assets comprise:

- Investments at fair value through profit or loss
- Derivatives
- Investment sales proceeds receivable
- Other receivables
- Cash and cash equivalents

A financial asset (in whole or in part) is derecognised:

- when the Company has transferred substantially all the risk and rewards of ownership; or
- when it has not retained substantially all the risk and rewards and when it no longer has control over the asset or a portion of the asset; or
- when the contractual right to receive cash flow has expired.

Investments at Fair Value Through Profit or Loss
Investments are classified by the Directors as at fair value through profit or loss. As the Company's business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or increases in fair value, listed equities and fixed income securities are designated as at fair value through profit or loss on initial recognition. The Company manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy, and information about the Company is provided internally on this basis to the Company's key management personnel.

Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned, and are initially measured at fair value.

The Directors value all investments in funds at the net asset values of those funds as at the relevant valuation date, as determined in accordance with the terms of the funds and as notified to the Company by the relevant fund manager or the relevant administrator where they consider it represents fair value. When the Directors consider it not to represent fair value certain adjustments have been made. Such adjustments have been based on sale negotiations and externally available evidence.

The valuation date of each fund may not always be coterminous with the valuation date of the Company and in such cases the valuation of the fund at the last valuation date is used with an estimation of movement since that date. This is permitted by the Company's prospectus for striking the Company's monthly Net Asset Value. Please see note 3 for further details on the usage of estimates.

The net asset values reported by the relevant fund managers and/or fund administrators and used by the Directors as at 31 December 2013 may be unaudited as at that date and may differ from the amounts which would have been realised from a redemption of the investment in the relevant fund as at 31 December 2013.

Gains and losses arising from changes in the fair value of investments classified as at fair value through profit or loss are recognised in the Statement of Comprehensive Income.

Derivatives
The Company's activities expose it primarily to the financial risk of changes in foreign exchange rates. The Company uses forward foreign exchange contracts to hedge these exposures. The Company does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Company's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. The Company does not use hedge accounting and all gains or losses on forward foreign exchange contracts are taken to the Statement of Comprehensive Income.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Derivatives, continued
A forward currency contract obligates the Company to receive or deliver a fixed quantity of foreign currency at a specified price on an agreed future date. These contracts are accounted for when any contract becomes binding and are valued in the Statement of Financial Position at the period end present value of the quoted forward price. Realised and unrealised gains and losses are included in the Statement of Comprehensive Income.

Investment sales proceeds receivable
These represent receivables for securities sold that have been contracted for but not yet settled. These are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment.

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.

Cash and Cash Equivalents
Cash includes amounts held in interest bearing overnight accounts. Cash and cash equivalents comprise bank balances and cash held by the Company including short-term bank deposits with an original maturity of three months or less. The carrying value of these assets approximates their fair value.

Financial liabilities
The classification of financial liabilities at initial recognition depends on the purpose for which the financial liability was issued and its characteristics.

All financial liabilities are initially recognised at fair value net of transaction costs incurred. All purchases of financial liabilities are recorded on the trade date, being the date on which the Company becomes party to the contractual requirements of the financial liability. Unless otherwise indicated, the carrying amounts of the Company's financial liabilities approximate to their fair values.

The Company's financial liabilities comprise derivatives and other payables.

A financial liability (in whole or in part) is derecognised when the Company has extinguished its contractual obligations, it expires or is cancelled. Any gain or loss on derecognition is taken to the Statement of Comprehensive Income.

Other Accruals and Payables
Other accruals and payables are not interest-bearing and are stated at their nominal value.

Interest-bearing Loans and Borrowings
Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. 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 over the period of the borrowings on an effective interest basis.

Fair Value Measurement Hierarchy
IFRS requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement (see note 5). The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

Equity
An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity is recorded at the proceeds received, net of issue costs.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Income
Dividend income from investments is recognised when the shareholders' rights to receive payment has been established, normally the ex-dividend date.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

Expenses
All expenses are accounted for on an accruals basis and are presented as revenue items except for expenses that are incidental to the disposal of an investment which are deducted from the disposal proceeds.

Finance Costs
Finance costs are accounted for on an accruals basis and relate to bank interest resulting from the Company drawing down on its facility with Bank Julius Baer & Co Limited. All finance costs are expensed through the Statement of Comprehensive Income as incurred.

Operating Segments
The Directors are of the opinion that the Company is engaged in a single segment of business of investing in predominantly debt-oriented hedge funds.

Irish Auditing & Accounting Supervisory Authority (“IAASA”) review
As a consequence of a review of the 2012 annual report by the IAASA, the Company has agreed to enhance certain of its disclosures around Fair Value measurement and Financial Risk Management (International Financial Reporting Standard 7). These enhanced disclosures are included within note 3(a) and note 5 to these Financial Statements.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the Company’s accounting policies, which are described in note 2 to the Financial Statements, management is required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from their sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate was revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies:

a) Going concern
The Board’s assessment of the Company’s position as at 31 December 2013 and the factors impacting the forthcoming year are set out in the Chairman’s Statement and the Sub-Manager’s Report on pages 4 to 10 and in the Directors’ Report which incorporates the business review, corporate governance statements and in particular the future of the Company and going concern statements.

The financial position of the Company and its cash flows are set out on pages 28 to 31 of the Financial Statements. Note 5 to the Financial Statements includes the Company’s policies and procedures for managing its capital; its financial risk management objectives; details of financial instruments and hedging activities. Exposure to credit risk and liquidity risk are also disclosed.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES, continued

Critical judgements in applying accounting policies, continued:

a) Going concern, continued

As detailed in the Directors' Report a resolution was passed at the EGM dated 20 September 2011 and in accordance with the amended Article 36.1 of the Company's Articles of Incorporation, the Directors shall call a general meeting of Shareholders in September 2014 at which an ordinary resolution shall be proposed to approve the voluntary winding up of the Company (the "2014 Winding-up Resolution") with effect from 31 December 2014. The votes on the resolution will be weighted such that if any Shareholder votes in favour of winding up, the 2014 Winding-up Resolution will pass.

Whilst the Board cannot be certain what the results of this 2014 Winding-up Resolution will be, the Company has considerable financial resources and after making enquiries the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly the Directors continue to adopt the going concern basis in preparing these Financial Statements. As the Directors intend to serve protective notice on service providers and as 98% of the Company's net assets are represented either by cash or by investments which are expected to be realisable on normal terms at their then stated current net asset values, the net difference between valuing the Company's net assets on a going concern basis or a non-going concern basis is expected to be immaterial.

Should the 2014 Winding-up Resolution be passed, it is the intention of the Directors to propose a resolution whereby, if passed by Shareholders, the Company's investment policy will be amended to arrange an orderly and timely realisation of the Company's investment portfolio with a view to distribute capital back to Shareholders. As announced on 29 January 2014, the Sub-Manager and the Investment Adviser are working together to allow the Company to provide a full cash exit for any Shareholders who so desire in early 2015 and a continuation option for other Shareholders.

b) Functional currency and presentation currency

The Board of Directors considers Sterling as the currency in which the Company measures its performance, and reports its results , as well as the currency in which capital is raised, dividends are declared and paid and capital is returned. Further the Company hedges, although not fully, against US dollar exchange rate movements. Sterling is both the functional and presentation currency of the Company.

Key sources of estimation uncertainty

The following are the key assumptions and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

a) Fair value of Investments at fair value through profit or loss

The Company invests in debt oriented hedge funds. The investments are valued at the net asset value of that fund as at the relevant valuation date in accordance with the terms of the funds and as notified by the relevant fund manager / administrator. However, the valuation date may be non-coterminous with the valuation date of the Company and hence in such cases the latest valuation as adjusted for estimates provided by the manager is used (estimated NAVs are based on estimated movements since the last published NAV taking into account capital introductions, distributions, dividends and estimated performance). As at 31 December 2013, 98% (31 December 2012: 100%) of the fair value attributed to the Company's investment portfolio was based on final net asset values of the underlying investments. The Directors consider these net asset values reported to best represent the fair value of investments as the underlying fund managers / administrators adopt fair value accounting for their underlying investments when generating their net asset values.

When the Directors consider the net asset value of those funds not to represent fair value, certain adjustments have been made. The Directors are able to adjust the reported net asset values by the underlying fund managers / administrators with a view to establish the fair value and they have been applied with care and in good faith by the Directors in consultation with the Sub-Manager and Auditor. Such adjustments have been based on sale negotiations and externally available evidence.

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

4. DIVIDENDS

The Company's dividend policy is to pay annual dividends totalling 3.5% of the Company's net asset value by means of interim payments.

On 25 April 2013, the Directors recommended a final dividend of 1.81p per share in relation to the year ended 31 December 2012 which was paid on 9 May 2013, at a total cost of £2,119,291.

The Directors declared an interim dividend of 1.87p per share in relation to the six months ended 30 June 2013 which was paid on 27 September 2013, at a total cost of £2,189,543.

The Directors have declared an interim dividend in relation to the year ended 31 December 2013 of 1.92p per share which will be paid on 2 May 2014 to Shareholders on the register at 4 April 2014. The ex-dividend date will be 2 April 2014. In accordance with IAS 10, this dividend has not been included within the Financial Statements.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Strategy in using financial instruments

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Categories of financial instruments	31 December 2013 £	31 December 2012 £
Financial assets		
Investments at fair value through profit or loss ("FVTPL")		
- Designated as FVTPL (level 1)	-	3,106,736
- Designated as FVTPL (level 2)	115,731,211	110,372,325
Held for trading		
- Derivatives	1,831,294	1,507,937
Investment sales proceeds receivable	742,960	1,427,069
Other receivables	128,292	227,318
Cash and cash equivalents	10,557,819	4,971,673
Total assets	**128,991,576**	**121,613,058**
Financial liabilities		
Other payables	562,776	598,795
Total liabilities	**562,776**	**598,795**

At 31 December 2013, the Company's financial instruments are affected by the following risks in actual market prices: interest rates, credit exposure, liquidity and foreign currency movements. Interest rate and foreign currency movements are covered separately within this note.

Capital Risk Management

The Company's principal activity and primary investment objective is to produce annual returns in excess of 3-month Sterling LIBOR plus 5% over a rolling 3-year period, with annual standard deviation of under 5%. The Company's investment policy is to invest in an actively managed portfolio of predominantly debt-oriented hedge funds. Following the EGM dated 20 September 2011, the Company will place any such redemption notices as necessary ahead of the possible wind up date of 31 December 2014 and, will not in the interim, make any new investments in funds which have lock-up or capital commitment periods beyond that date. As announced on 29 January 2014, the Sub-Manager and the Investment Adviser are working together to allow the Company to provide a full cash exit for any Shareholders who so desire in early 2015 and a continuation option for other Shareholders.

The capital structure of the Company consists of debt, which includes the borrowing facility disclosed in note 21, and equity attributable to equity holders, comprising issued capital, share premium and distributable reserve and retained earnings as disclosed in notes 17 and 18. The Company does not have any externally imposed capital requirements.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS, continued

Capital Risk Management, continued

The Company manages its capital to endeavour to ensure that its primary investment objective is met. It does this by investing available cash and drawing down on its bank facility whilst maintaining sufficient liquidity to meet on-going expenses.

The Sub-Manager ensures not more than 15% of the Company's total assets are invested in any one underlying individual hedge fund and not more than 20% of the Company's total assets are invested in aggregate in funds managed by any single underlying hedge fund manager, in each case at the point of investment. These limitations do not apply to fund of hedge fund vehicles managed or advised by the Investment Adviser.

The Investment Adviser makes its best endeavours to provide monthly redemptions in Sandalwood funds to procure liquidity for the Company, and to waive any lock-in, redemption or penalty payments which Sandalwood vehicles may have. To the extent that the Investment Adviser can only redeem by means of making early redemption penalty payments, these payments are netted off from the proceeds raised by the redemption.

Market price risk

All securities investments present a risk of loss of capital. As at 31 December 2013, the total exposure to market price risk was £115,731,211 (31 December 2012: £113,479,061), which was 100% of the value of the Company's investments at fair value through profit or loss. The Investment Manager and Sub-Manager moderate this risk through a careful selection of fund investments within specified limits in line with the Company's stated investment policy as disclosed in the Capital Risk Management section of this note.

The Company invests in a portfolio consisting primarily of debt-oriented hedge funds, which are held to obtain long term gains. Due to the inherent nature of investing in such funds, the Company does not seek to manage the risk that it is indirectly exposed to in the underlying hedge funds or investments, such as market price risk, stock specific risk or the credit risk of the ultimate underlying debt instruments in which those funds invest and which in aggregate contribute to the Net Asset Value of the Company other than by the continual re-evaluation of whether and to what extent the Company should remain invested in each such fund.

The Company's market price risk covers a very broad range of both performing and non-performing credit instruments, spread globally. In addition, the Company has exposure to indirect market price risk from both quoted and unquoted equities. An analysis of the exposure to these asset types is set out in Fig 2 on Page 8, and the geographical split is set out in Fig 5 on Page 10 of the Sub-Manager Report. In addition, within this spread of asset classes and geographies, the Company is exposed to market price risk across a very broad range of industrial sectors. This exposure fluctuates over time, depending on the assessment by the underlying hedge funds of where the opportunity set is most attractive. Whilst the Investment Adviser and the Sub-Manager use reasonable endeavours to monitor this market price exposure, they are dependent on the underlying hedge fund managers to provide them with accurate and timely information. By its nature this information is backward-looking and cannot always be verified at first hand. The Investment Adviser and the Sub-Manager place reliance on the exposure analyses produced by the managers of the underlying hedge funds, and therefore the accuracy and integrity of their data capture and reporting processes forms a key part of the manager due diligence process undertaken by the Investment Adviser. This data is monitored by the Investment Adviser and the Sub-Manager in order to aid the provision of any relevant and useful information to the Directors and Shareholders of the Company and to ensure the managers of the underlying hedge funds do not move away from their stated investment strategies. Should the Investment Adviser and Sub-Manager feel the latter is the case with the underlying managers they consider divestment out of these investments.

The Company's overall market positions are monitored on a monthly basis by the Company's Investment Manager and Sub-Manager and are reviewed on a quarterly basis by the Board of Directors. The Sub-Manager also actively monitors the performance of the underlying hedge funds, which is regularly reported to the Board. The Company retains the ability to diversify its investment portfolio further should it be deemed necessary.

The Company's stock, fund and manager specific price risk is managed through diversification of the investment portfolio ratio exposures. Refer to the Sub-Manager's Report for this information.

If the market prices at 31 December 2013 had increased by 5%, net of all performance fees, with all other variables held constant, this would have increased net assets attributable to holders of Ordinary Shares in the Company by approximately £5.79 million (31 December 2012: £5.67 million). Conversely, if the market prices had decreased by 5%, net of all performance fees, this would have decreased net assets attributable to holders of Ordinary Shares in the Company by approximately £5.79 million (31 December 2012: £5.67 million).

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS, continued

Market price risk, continued

The tables below summarise the Company's exposure to market price risk in terms of concentrations of its investments:

31 December 2013

Name of investment	Strategy	Fair Value £	% of Portfolio Value
Fund of Funds Managed by Sandalwood			
Bodleian Partners Class A Limited Partnership	Fund of Funds	31,254,198	27.01%
Sandalwood Debt Fund A Limited Partnership	Fund of Funds	25,282,433	21.85%
Sandalwood Overseas Fund SPC Class L	Fund of Funds	23,339,206	20.17%
Sandalwood Double S	Fund of Funds	13,847,963	11.97%
Sandalwood Debt Fund B Limited Partnership	Fund of Funds	6,572,256	5.68%
Sandalwood Opportunity Fund	Fund of Funds	3,243,341	2.80%
Sandalwood SPV Debt A	Fund of Funds	1,447,434	1.25%
Sub Total		**104,986,831**	**90.73%**
Single Manager Funds			
Elliott International Fund	Multi-strategy credit	4,877,777	4.21%
Cerberus Institutional Partner	Distressed securities	4,358,596	3.76%
Sub Total		**9,236,373**	**7.97%**
Total		**114,223,204**	**98.70%**

31 December 2012

Name of investment	Strategy	Fair Value £	% of Portfolio Value
Fund of Funds Managed by Sandalwood			
Sandalwood Double S	Fund of Funds	28,302,047	24.94%
Sandalwood Debt Fund A Limited Partnership	Fund of Funds	23,155,297	20.40%
Bodleian Partners Class A Limited Partnership	Fund of Funds	21,579,674	19.01%
Sandalwood Overseas Fund SPC Class L	Fund of Funds	20,526,121	18.09%
Sandalwood Opportunity Fund	Fund of Funds	3,106,736	2.73%
Sandalwood SPV Debt A	Fund of Funds	2,152,229	1.91%
Sub Total		**98,822,104**	**87.08%**
Single Manager Funds			
Cerberus Institutional Partner	Distressed securities	6,279,587	5.53%
Elliott International Fund	Multi-strategy credit	4,446,393	3.92%
Sub Total		**10,725,980**	**9.45%**
Total		**109,548,084**	**96.53%**

Of the Company's significant direct holdings it has a concentration of 90.73% (31 December 2012: 87.08%) of the portfolio within Fund of Fund investments managed by Sandalwood ("Sandalwood funds"). The concentration risk of Sandalwood funds is deemed to be an acceptable risk by the Board as it is in line with the stated investment strategy of the Company to utilise the fund of hedge fund holding vehicles which are managed by the Investment Adviser and those fund of hedge fund holding vehicles are themselves diversified.

If the underlying hedge fund prices of the Sandalwood funds at 31 December 2013 in isolation had increased by 5%, net of all performance fees, with all other variables held constant, this would have increased net assets attributable to holders of Ordinary Shares in the Company by approximately £5.25 million (31 December 2012: £4.94.million) Conversely, if the underlying hedge fund prices of the Sandalwood Funds in isolation had decreased by 5%, net of all performance fees, this would have decreased net assets attributable to holders of Ordinary Shares in the Company by approximately £5.25 million (31 December 2012: £4.94 million).

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS, continued

Market price risk, continued

The Company's top 10 Holdings on a Look-through Basis

31 December 2013

Name of investment*	Strategy	Fair Value £	% of Portfolio Value
Redwood Domestic Fund, LP	Multi-strategy credit	17,195,149	14.86%
Elliott Associates, LP	Multi-strategy credit	16,368,365	14.14%
Third Point Partners (QP), LP	Event Driven	9,765,145	8.44%
Cerberus SPV, LLC	Distressed securities	9,254,532	8.00%
Centerbridge Credit Partners	Distressed securities	8,891,974	7.68%
York Credit Opportunities Fund	Multi-strategy credit	8,155,707	7.05%
Jet Capital Concentrated Fund	Multi-strategy credit	7,445,804	6.43%
Canyon Balanced Fund, L.P.	Multi-strategy credit	6,460,762	5.58%
Scoggin Worldwide Investors, LP	Distressed securities	4,639,192	4.02%
Appaloosa Investment. LP	Distressed securities	4,622,511	3.99%
Total		92,799,141	80.19%

31 December 2012

Name of investment*	Strategy	Fair Value £	% of Portfolio Value
Elliott Associates, LP	Multi-strategy credit	17,785,976	15.67%
Redwood Domestic Fund, LP	Multi-strategy credit	14,508,468	12.79%
Cerberus SPV, LLC	Distressed securities	12,902,180	11.37%
Centerbridge Credit Partners	Distressed securities	9,140,269	8.05%
Third Point Partners (QP), LP	Event Driven	8,618,850	7.60%
York Credit Opportunities Fund	Multi-strategy credit	7,229,362	6.37%
Cerberus Institutional Partner	Distressed securities	6,579,868	5.80%
Jet Capital Concentrated Fund	Multi-strategy credit	6,420,783	5.66%
Canyon Balanced Fund, L.P.	Multi-strategy credit	5,678,681	5.00%
Scoggin Worldwide Investors, LP	Distressed securities	4,068,807	3.59%
Total		92,933,244	81.90%

* In several cases the exposure to these funds is made up of a combination of an indirect investment in the domestic funds and a direct investment in the overseas sister fund, which has similar but not identical portfolio composition.

Should Shareholders vote in favour of winding up the Company, as detailed further in the Directors' Report and Note 3, and proposals are passed for a managed realisation of the Company's investment portfolio, the Company will seek to realise its remaining investments. Where the number of investments reduces or the percentage ownership of the total portfolio in any one investment increases, this will lead to increased market price risk. This increase in market price risk is a natural consequence of the Company focusing on a managed realisation of its investment portfolio.

Interest rate risk

The majority of the Company's financial assets and liabilities are non-interest bearing. As a result, the Company is not directly subject to significant risk due to fluctuations in the prevailing levels of market interest rates. Any excess of cash or cash equivalents is invested at short-term interest rates.

The Company's interest bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS, continued

Interest rate risk, continued
The tables below summarise the Company's direct exposure to interest rate risks:

31 December 2013	Floating rate £	Non-interest bearing £	Total £
Financial assets			
Investments at fair value through profit or loss	-	115,731,211	115,731,211
Derivatives	-	1,831,294	1,831,294
Investment sales proceeds receivable	-	742,960	742,960
Other receivables	-	128,292	128,292
Cash and cash equivalents	10,557,819	-	10,557,819
Total financial assets	**10,557,819**	**118,433,757**	**128,991,576**
Financial liabilities			
Other payables	-	(562,776)	(562,776)
Total financial liabilities	**-**	**(562,776)**	**(562,776)**
Total interest sensitivity gap	**10,557,819**	**117,870,981**	**128,428,800**

31 December 2012	Floating rate £	Non-interest bearing £	Total £
Financial assets			
Investments at fair value through profit or loss	-	113,479,061	113,479,061
Derivatives	-	1,507,937	1,507,937
Investment sales proceeds receivable	-	1,427,069	1,427,069
Other receivables	-	227,318	227,318
Cash and cash equivalents	4,971,673	-	4,971,673
Total financial assets	**4,971,673**	**116,641,385**	**121,613,058**
Financial liabilities			
Other payables	-	(598,795)	(598,795)
Total financial liabilities	**-**	**(598,795)**	**(598,795)**
Total interest sensitivity gap	**4,971,673**	**116,042,590**	**121,014,263**

At 31 December 2013, should interest rates have lowered by 10 basis points with all other variables remaining constant, the decrease in net assets attributable to holders of Ordinary Shares for the year would amount to approximately £10,558 (31 December 2012: decrease of £4,972). If interest rates had risen by 10 basis points, the increase in net assets attributable to holders of Ordinary Shares would amount to £10,558 (31 December 2012: increase of £4,972).

The Investment Manager monitors the Company's overall interest sensitivity on a regular basis by reference to prevailing interest rates and the level of the Company's cash balances or debt.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS, continued

Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred by the reporting date, if any.

The following table shows the maximum exposure to credit risk:

	31 December 2013 £	31 December 2012 £
Investments at fair value through profit or loss	115,731,211	113,479,061
Derivatives	1,831,294	1,507,937
Investment sales proceeds receivable	742,960	1,427,069
Other receivables	128,292	227,318
Cash and cash equivalents	10,557,819	4,971,673
Total	**128,991,576**	**121,613,058**

Amounts in the above table are based on the carrying value of all accounts.

The Company does not issue its own debt instruments, nor does it have any direct investment in such instruments. All investments are made through funds or fund of funds. Any underlying credit risk exposures in those funds' investments are reflected within the fair values of those funds or fund of funds investments held by the Company. Please see market price risk disclosures within these Financial Statements for further details on the Company's exposure to market price risk.

The Company's investments predominantly consist of holdings of redeemable interests in open-ended funds. Those funds will in turn make underlying investments. Such underlying investments may include debt and other instruments. The funds invested into by the Company do not have credit ratings and do not in general make available information in respect of the credit quality of their portfolio investments. It is therefore not possible for the Board to ascribe or to impute credit ratings and credit quality information to the investments to which the Company is exposed either directly or indirectly, individually or in aggregate.

Investments only become a direct credit risk to the Company once redemption requests are made and the underlying fund has yet to settle. Once the redemption proceeds become receivable, the Investment Manager and Sub-Manager monitor the expected redemption proceeds to ensure that they are received on a timely basis in accordance with the terms of the investment fund's offering memorandum. Once the redemption proceeds are received by the Custodian, and become part of the uninvested cash balances held on the Company's balance sheet and accordingly a liability on the balance sheet of the Custodian. This is monitored via the credit rating of the Custodian. Similarly, the Company will have also have credit risk in respect of any foreign currency hedging transactions entered into with the Custodian. Should the Custodian credit rating fall below what the Board of Directors deem to be an acceptable level, the Company has the ability to replace the Custodian.

The Sub-Manager's Report includes a chart of the manager's strategies at a fund level, which gives information regarding the concentration of risk for the Company. The Investment Portfolio also includes details of the Company's principal investment holdings, including Sandalwood managed funds.

The Sub-Manager monitors the Company's credit position on a monthly basis, and the Board of Directors review it on a quarterly basis. The Investment Adviser also assesses the risk associated with investments by performing financial analysis on the issuing companies as part of its normal scrutiny of prospective investments, which includes an assessment of the principal service providers to the hedge funds including administrator, auditor and prime brokers. Receivables for redeemed investments in underlying hedge funds are typically received within two months of the redemption date though may be subject to gating, liquidation or suspension provisions imposed by the underlying fund manager.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS, continued

Credit risk, continued
All cash and cash equivalents held by the Company at 31 December 2013 was with Bank Julius Baer & Co. Limited ("the Bank"). Bankruptcy or insolvency of the Bank may cause the Company's rights with respect to the cash and cash equivalents held to be delayed or limited. The Company monitors its risk by monitoring the credit rating of the Bank, which was A1 as at 31 December 2013 (31 December 2012: A1).

The Company has entered into forward foreign exchange contracts. Transactions in forward foreign exchange contracts are not regulated by any regulatory authority nor are they guaranteed by an exchange or clearing house. The Company will be subject to the risk of the inability or refusal of its counterparties to perform with respect to such contracts. Any such default would eliminate any potential profit and compel the Company to cover its commitments for re-sale or repurchase, if any, at the then current market price. Note 23 details the outstanding commitments in respect of forward foreign exchange contracts at the year end.

Credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The Investment Manager assesses the risk associated with investments by performing financial analysis on the issuing companies as part of its normal scrutiny of prospective investments.

The carrying amount of financial assets recorded in the Financial Statements best represents the Company's maximum exposure to credit risk.

Liquidity risk
The Company takes on exposure to liquidity risk, which is the risk that the Company will encounter difficulty in realising assets or otherwise raising funds to meet financial commitments.

Some of the Company's investments may comprise securities which are traded in recognised financial markets. The Company may also invest in securities which may lack an established secondary trading market or are otherwise considered illiquid. Liquidity of a security relates to the ability to dispose of the security easily as well as the price to be obtained and does not generally relate to the credit risk or likelihood of receipt of cash at maturity.

The Investment Adviser makes its best endeavours to provide monthly redemptions in Sandalwood funds to procure liquidity for the Company, and to waive any lock-in, redemption or penalty payments which Sandalwood vehicles may have.

With one exception (no. 4 below), the liquidity needs of the Company are minimal and exhibit a high degree of stability and predictability. They are:

1. Operating expenses, which are stable throughout the year and exhibit a low degree of seasonality;

2. The payment of a discretionary semi-annual dividend equivalent to 1.75% of the net asset value of the Company;

3. The payment of a quarterly performance fee, which is capped at 3% of the Company's net asset value in respect of any financial year;

4. The need to meet margin calls on the forward currency contracts which are entered into in order to hedge the Company's foreign exchange exposure. The counterparty may issue margin calls if the exposure is over 10% of the collateral value of the Company's Eligible Assets/Eligible Hedge Fund Investments. If this exceeds 15% the counterparty may issue a close out notice.

The only non-predictable and potentially large requirement for liquidity at short notice is item 4. The Sub-Manager actively monitors this exposure against available liquidity resources at all times.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS, continued

Liquidity risk, continued

As stated above, the Company enters into forward foreign exchange contracts to manage the Company's foreign currency exposure. As experienced in recent years, Sterling : US Dollar exchange rates can fluctuate significantly within a short period of time which could lead to the Company having to close out a hedging instrument at a considerable loss requiring the Company to meet this financial obligation in the short term. For example, a 5% adverse closing rate variation compared to the contracted rate on forward foreign exchange contract held at the year end would have resulted in an additional financial liability to the Company of approximately £4 million (31 December 2012: £4 million).

To manage this risk, the Company maintains at all times liquidity facilities via the borrowing facility (see note 22), maintains significant cash and cash equivalent balances and liquid investments with an aggregate total value which, in the opinion of the Directors, will allow it to withstand any foreseeable depreciation of Sterling against the US dollar, which would give rise to a significant margin call.

In addition at the year end the Company held 20% (31 December 2012: 18%) of its portfolio in Sterling denominated investments as well as placing currency hedging instruments at a level below the maximum currency exposure of the Company.

These strategies enhance the Company's ability to meet financial liabilities that may arise as a consequence of using foreign currency hedging instruments.

The Company has the facility to borrow in the short term to facilitate settlement. No borrowings were utilised at 31 December 2013 (31 December 2012: nil) (note 22).

The Investment Manager regularly monitors the Company's liquidity position, and the Board of Directors reviews it on a quarterly basis.

The table below analyses the Company's financial assets and liabilities into relevant maturity groups based on the remaining period at the reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS, continued

Liquidity risk, continued

31 December 2013	Less than 1 month £	1-3 months £	3-6 months £	6-12 months £	12 - 24 months £	In liquidation £	Total £
Financial assets							
Investments at fair value through profit or loss	3,240,474	-	4,860,711	103,695,164	462,925	3,471,937	115,731,211
Derivatives	-	1,831,294	-	-	-	-	1,831,294
Investment sales proceeds receivables	742,960	-	-	-	-	-	742,960
Other receivables	-	128,292	-	-	-	-	128,292
Cash and cash equivalents	10,557,819	-	-	-	-	-	10,557,819
Total financial assets	**14,541,253**	**1,959,586**	**4,860,711**	**103,695,164**	**462,925**	**3,471,937**	**128,991,576**
Financial liabilities							
Other payables	-	(562,776)	-	-	-	-	(562,776)
Total financial liabilities	**-**	**(562,776)**	**-**	**-**	**-**	**-**	**(562,776)**
Total liquidity gap	**14,541,253**	**1,396,810**	**4,860,711**	**103,695,164**	**462,925**	**3,471,937**	**128,428,800**

31 December 2012	Less than 1 month £	1-3 months £	3-6 months £	6-12 months £	12 - 24 months £	In liquidation £	No stated maturity £	Total £
Financial assets								
Investments at fair value through profit or loss	10,652,330	6,173,509	19,367,873	29,657,055	26,267,677	14,768,003	6,592,614	113,479,061
Derivatives	-	1,507,937	-	-	-	-	-	1,507,937
Investment sales proceeds receivables	1,427,069	-	-	-	-	-	-	1,427,069
Other receivables	-	227,318	-	-	-	-	-	227,318
Cash and cash equivalents	4,971,673	-	-	-	-	-	-	4,971,673
Total financial assets	**17,051,072**	**7,908,764**	**19,367,873**	**29,657,055**	**26,267,677**	**14,768,003**	**6,592,614**	**121,613,058**
Financial liabilities								
Other payables	(526,166)	(72,629)	-	-	-	-	-	(598,795)
Total financial liabilities	**(526,166)**	**(72,629)**	**-**	**-**	**-**	-	-	(598,795)
Total liquidity gap	**16,524,906**	**7,836,135**	**19,367,873**	**29,657,055**	**26,267,677**	**14,768,003**	**6,592,614**	**121,014,263**

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS, continued

Liquidity risk, continued

Where investments are fund of funds, they are shown above on a look-through basis as if the Company had issued contractual redemption notices as at 31 December 2013. The investments may however, be liable to redemption gating, suspension or the creation of side-pockets for illiquid assets at the discretion of the underlying fund manager.

Following the EGM on 20 September 2011, the Company has committed to place such redemption notices as necessary ahead of the possible winding up date of 31 December 2014, and will not, in the interim, make any new investments in funds/fund of funds which have lock up or capital commitment periods beyond that date.

Investments with no stated maturity or liquidating in the table above are illiquid investments which are in run-off and returning capital to investors over time. In the event of the Company being wound up, should the Company have remaining illiquid assets still held at the point of winding up, the Board, with advice from the Investment Manager and Sub-Manager, will consider options to sell the illiquid assets in the secondary market.

Currency risk

The majority of the net assets of the Company are denominated in US Dollar rather than Sterling, its functional currency, with the effect that the Statement of Financial Position and Statement of Comprehensive Income can be significantly affected by currency movements.

31 December 2013	Cash	Investments	Forward contracts	Other Net Assets	Net Exposure
	£	£	£	£	£
US Dollar	5,295	92,392,005	(82,552,300)	871,251	10,716,251

31 December 2012	Cash	Investments	Forward contracts	Other Net Assets	Net Exposure
	£	£	£	£	£
US Dollar	-	92,952,939	(80,387,515)	1,654,387	14,219,811

The Company's investment portfolio comprises predominantly US Dollar denominated investments. The Company engages in currency hedging in an attempt to reduce the impact on the Company of currency fluctuations and the volatility of returns which may result from such currency exposure. The Company seeks to obtain foreign exchange lines from institutions which are rated A1 or above by Standard & Poor's or an equivalent rating agency.

At 31 December 2013, had the exchange rate between Sterling and the US Dollar increased or decreased compared to US Dollar by 5% with all other variables held constant, the increase or decrease respectively in net assets attributable to holders of Ordinary Shares would amount to approximately £0.54 million (31 December 2012: £0.71 million).

The Investment Manager monitors the Company's currency position on a daily basis, and the Board of Directors reviews it on a quarterly basis.

Fair value measurement

The following table presents the Company's financial assets and liabilities at fair value through profit or loss by level within the valuation hierarchy:

31 December 2013	Level 1	Level 2	Total	% of net assets
	£	£	£	%
Fair value assets				
Designated as FVTPL	-	115,731,211	115,731,211	90.06
Held for trading - derivatives	-	1,831,294	1,831,294	1.43

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS, continued

Fair value measurement, continued

31 December 2012	Level 1	Level 2	Total	% of net assets
	£	£	£	%
Fair value assets				
Designated as FVTPL	3,106,736	110,372,325	113,479,061	93.75
Held for trading - derivatives	-	1,507,937	1,507,937	1.25

Investments in quoted investment funds in a non-active market or unlisted investment funds ("investment funds") are valued based on the reported net asset value per share as provided by the investee fund's administrator or investment manager. The Company's ability to redeem its investment with the investment fund on the reporting date at the reported net asset value per share, will determine whether the investee fund will be categorised within level 2 of the fair value hierarchy.

The valuation and classification of the investments and derivatives are reviewed on a regular basis. The Board determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

As at 31 December 2013, an investment with the fair value of £3,243,341 (31 December 2012: no transfers) was transferred between Level 1 and Level 2 fair value measurements as it was not deemed to be traded in an active market. There were no transfers into or out of Level 3 fair value measurements during the reporting period.

Valuation methodology
During the period, there have been no changes to the valuation methodologies used by the Company, these valuation methodologies are as disclosed in note 2 to these Financial Statements and have not changed from the last annual audited Financial Statements to 31 December 2012.

6. SEGMENTAL INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company.

For management purposes, the Company is organised into one main operating segment, which focuses on long term growth from investments. All of the Company's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment. The financial results from this segment are equivalent to the Financial Statements of the Company as a whole.

In terms of the funds in which the Company invests, these are predominantly incorporated in the United States. The underlying investments in those funds however, may be in other countries.

7. OTHER GAINS AND LOSSES

	31 December 2013	31 December 2012
	£	£
Held for trading: Derivatives		
- Realised gains	1,259,801	2,057,144
- Unrealised gains	323,357	1,641,520
	1,583,158	3,698,664
Realised foreign currency losses	(1,427,636)	(24,921)
	155,522	**3,673,743**

8. INTEREST RECEIVABLE

	31 December 2013 £	31 December 2012 £
Bank interest	4,014	7,804
	4,014	**7,804**

Bank interest represents the only gain or loss on loans and receivables.

9. FINANCE COSTS

	31 December 2013 £	31 December 2012 £
Finance costs arising on financial liabilities not at amortised cost:		
Facility fee (note 22)	125,000	125,000
Bank interest paid	1,018	618
	126,018	**125,618**

The above finance costs arise on financial liabilities at amortised cost using the net effective interest method. The bank interest resulted from the Company's debt facility with Bank Julius Baer & Co Limited to fund the purchase of investments in the short term. The Company did not draw on the debt element of the facility during current or prior financial year.

No other losses have been recognised in respect of financial liabilities at amortised cost other than those disclosed above.

10. EXPENSES

	31 December 2013 £	31 December 2012 £
Management fees	1,260,629	1,186,343
Sandalwood management fee rebate	(1,568,277)	(1,288,503)
Net management fees	(307,648)	(102,160)
Performance fees	1,307,490	304,846
Accounting, secretarial and administration fees	146,152	161,405
Directors' fees	82,500	82,500
Custodian fees	63,650	59,638
Other expenses:		
Other expenses	127,802	122,154
Marketing expenses	95,042	127,518
Auditor's remuneration for audit services	30,060	27,846
Legal and professional fees	67,136	51,476
	320,040	328,994
Total expenses	**1,612,184**	**835,223**

The Sandalwood Securities, Inc. ("Sandalwood") management fee rebate is the management fee levied by Sandalwood in relation to the net asset value of Sandalwood funds invested in by AcenciA. This management fee rebate is treated as a reduction to the AcenciA management fee, so as to avoid duplication in fees paid to Sandalwood. As at 31 December 2013 an amount of £128,291 (31 December 2012: £227,318) was due in respect of this rebate and is included within other receivables.

10. EXPENSES, continued

With effect from 1 January 2013, the management fee charged by Sandalwood in relation to its funds is 1.5% per annum or 1% per annum (31 December 2012: 1.5% or 1.15%) of the net asset value of each fund, these percentage rates are higher than the Management fee charges to AcenciA, hence the management fee rebate is greater than the Management fee expense of the Company.

The Company has no employees. The Directors are the only key management personnel of the Company. Their remuneration disclosed above is all in respect of short-term benefits.

Management and Performance fees

The Company is responsible for the fees of the Investment Manager in accordance with the Management Agreement between the Company and the Investment Manager dated 2 November 2005.

For the services performed under the Management Agreement, the Company pays the Investment Manager a management fee equal to 1% per annum of total assets.

The Investment Manager compensates the Investment Adviser and the Sub-Manager for their services to the Company under the terms of the Investment Advisory Agreement and Sub-Management Agreement.

In addition to the management fee, subject to satisfaction of the High Water Mark Provision and the Performance Hurdle Provision, the Investment Manager will be entitled to a performance fee equivalent to 10 per cent of the amount by which the value of the Company's Net Asset Value per share at the end of each Accounting Period exceeds the value of the Net Asset Value per share at the end of the previous Accounting Period. Under the High Water Mark Provision, the Net Asset Value per share at the end of each Accounting Period must be greater than the value of the Net Asset Value per share at the end of any previous Accounting Period after taking account of any dividend paid. Under the Performance Hurdle Provision the Company's Net Assets must have increased by at least 3 per cent during the relevant Accounting Period after taking account of any dividend paid. As at 31 December 2013, the High Water Mark for the Company for the year was 106.81p (31 December 2012: 101.04p) per Ordinary Share after taking account of the dividends paid during the year, consequently the High Water Mark was exceeded throughout the year and a performance fee of £1,307,490 became payable (31 December 2012: £304,846). The High Water Mark for the next period for the Company is 109.75p.

The Investment Management Agreement may be terminated by either party giving the other not less than six months' written notice. The Sub-Management Agreement will terminate at the same time as the Investment Management Agreement terminates or otherwise on either party giving twelve months' written notice.

The Investment Advisory Agreement may be terminated on six months' written notice. In the event that the Investment Advisory Agreement is terminated, the Investment Adviser will remain entitled to a pro rata share of its fees to the extent that and for so long as the Company's assets remain invested in funds which were recommended by the Investment Adviser, including any funds managed or advised by the Investment Adviser.

Administration fees

With effect from 9 October 2012, Praxis Fund Services Limited (the "New Administrator") was appointed as the administrator. The Company is responsible for the fees of the New Administrator in accordance with the Agreement made between the Company and the New Administrator dated 1 October 2012 (the "New Administration Agreement").

In respect of the services provided under the New Administration Agreement, the Company pays the New Administrator a fee as stated below, subject to a monthly minimum of £6,250.

- 0.125% per annum of the net asset value of the Company up to £50 million
- 0.10% per annum of the net asset value of the Company exceeding £50 million

In addition, the New Administrator is entitled to receive fees for any extraordinary duties performed to be charged on a time spent basis. The New Administration Agreement is terminable by either side on 3 months' notice.

10. EXPENSES, continued

Administration fees, continued

For the period up to 8 October 2012, the Company was responsible for the fees of the Butterfield Fulcrum Group (Guernsey) Limited ("Old Administrator") in accordance with the Administration Agreement made between the Company and the Old Administrator dated 6 June 2007 (the "Administration Agreement").

In respect of the services provided under the Administration Agreement, the Company paid the Old Administrator a fee as stated below, subject to a monthly minimum of £3,750.

- 0.125% per annum of the net asset value of the Company up to £50 million
- 0.10% per annum of the net asset value of the Company exceeding £50 million

In addition, the Company paid the Old Administrator £15,000 per annum for corporate secretarial services and £7,500 per annum for financial statement preparation.

In addition, the Old Administrator was entitled to receive fees for any extraordinary duties performed, to be charged on a time spent basis. The Administration Agreement was terminated with effect from 8 October 2012.

Directors fees

During the current and prior years the basic fee paid to each Director was £22,500 per annum, except for the Chairman who received £32,500 per annum and Mr Battey who receives an additional £5,000 per annum for being Chairman of the Audit Committee.

Custodian fees

The Company is responsible for the fees of the Custodian (Bank Julius Baer & Co Limited) in accordance with the Custodian Agreement made between the Company and the Custodian dated 2 November 2005.

In respect of services provided under the Custodian Agreement, the Company pays the Custodian a quarterly fee at the rate of 0.05% per annum of the Net Asset Value of the Company subject to a minimum fee of £3,325 per quarter. The Custodian Agreement is terminable by either side on three months' notice. The Custodian does not have any decision-making discretion relating to the investment of the assets of the Company.

11. TAX STATUS

The Company is exempt from Guernsey income tax and is charged an annual exemption fee of £600.

12. BASIC AND DILUTED EARNINGS PER ORDINARY SHARE

Basic and diluted earnings per Ordinary Share are calculated by dividing profit for the year available by the weighted average number of Ordinary Shares outstanding during the year.

	31 December 2013 Number of Ordinary Shares	31 December 2012 Number of Ordinary Shares
Weighted average number of Ordinary Shares	117,087,877	117,990,670
Profit for the financial year	11,767,406	10,554,324
Basic and diluted earnings per Ordinary Share	10.05p	8.95p

The weighted average number of Ordinary Shares as at 31 December 2013 is based on the number of Ordinary Shares in issue during the year under review, as detailed in note 17.

Subsequent to the year end, during February 2014, the Company acquired and cancelled 345,928 Ordinary Shares.

There are no instruments in issue that could potentially dilute earnings per Ordinary Share in future years.

13. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2013 £	31 December 2012 £
Fair value through profit or loss investments		
Opening fair value as at beginning of year	113,479,061	109,844,172
Purchases	3,363,625	4,107,508
Sales - proceeds	(14,285,412)	(8,303,367)
- realised gains on sales	7,255,372	3,091,012
Movement in unrealised gains on investments	5,918,565	4,739,736
Closing fair value at end of year	**115,731,211**	**113,479,061**
Closing cost	92,121,799	95,788,214
Unrealised gains on investments	23,609,412	17,690,847
Closing fair value at end of year	**115,731,211**	**113,479,061**
Realised gains on sales	7,255,372	3,091,012
Movement in unrealised gains on investments	5,918,565	4,739,736
	13,173,937	7,830,748
Investment income	172,135	2,870
Total gains on investments is designated at fair value through profit or loss	**13,346,072**	**7,833,618**

Further information and analysis of the investments is included in the Summary Information and Sub-Manager's Report.

As at 31 December 2013, £742,960 (31 December 2012: £1,427,069) of investment sales proceeds were receivable.

14. CASH AND CASH EQUIVALENTS

	31 December 2013 £	31 December 2012 £
Opening cash and cash equivalents	4,971,673	7,246,920
Net movement in the year	5,586,146	(2,275,247)
Closing cash and cash equivalents	**10,557,819**	**4,971,673**

Cash and cash equivalents comprise bank balances and cash held by the Company including short-term bank deposits with an original maturity of three months or less. The carrying value of these assets approximates to their fair value.

15. CURRENT ASSETS AND LIABILITIES

The Directors consider that the carrying amount of other receivables and other payables approximates to their fair value due to their short term nature.

16. OTHER PAYABLES

	31 December 2013 £	31 December 2012 £
Directors' fees payable (note 10)	-	20,625
Management fee payable (note 10)	113,115	200,695
Performance fee payable (note 10)	383,397	304,846
Auditor's remuneration payable	24,000	23,240
Printing costs payable	10,151	14,321
Accounting, secretarial and administration fees payable (note 10)	14,907	11,379
Custodian fee payable	10,759	5,144
Registrar fee payable	5,000	12,732
Sundry expenses payable	1,447	5,813
	562,776	**598,795**

17. SHARE CAPITAL

Authorised Capital
The Company has the power to issue an unlimited number of shares of no par value which may be issued as Redeemable Shares or C Shares or otherwise and which may be denominated in Sterling, Euro, US Dollars or any other currency. The Company only has Sterling Ordinary Shares in issue at the date of this report.

Issued Capital	Ordinary Shares	Total
31 December 2013		
At 1 January 2013	117,087,877	117,087,877
Ordinary Shares acquired and cancelled during the year	-	-
At as 31 December 2013	117,087,877	117,087,877
31 December 2012		
At 1 January 2012	120,072,146	120,072,146
Ordinary Shares acquired and cancelled during the year	(2,984,269)	(2,984,269)
At 31 December 2012	117,087,877	117,087,877

The Company did not acquire or cancel any Ordinary Shares during the year. During the year ended 31 December 2012, the Company acquired and cancelled 2,984,269 Ordinary Shares at an average price of 79.69p per share.

Buy Back of Ordinary Shares and Authority to Buy Back Ordinary Shares
By way of an ordinary resolution passed by a written resolution dated 2 November 2005 the Company took authority, to make market purchases of fully paid Ordinary Shares, provided that the maximum number of Ordinary Shares authorised to be purchased shall be 14.99% of the issued Share Capital of the Company issued pursuant to the Initial Public Offering ("IPO"). The minimum price which may be paid for a Share pursuant to such authority is one penny and the maximum price which may be paid for a Share is an amount equal to the higher of 105% of the average of the middle market quotations for a Share taken from the Official List for the five business days immediately preceding the date on which the Share is purchased or the higher of the price of the last independent trade and the highest current independent bid at the time of purchase.

On 3 July 2013, the Board announced their intention to return capital to Shareholders via an Enhanced Share Buy-back Program of up to 20% of the Shares in issue during the 12 month period to June 2014. Since 3 July 2013 however, the discount has been consistently narrower than the 10% target, therefore a return of capital had not been made up to the financial year end. On the 29 January 2014, the Board announced that it was narrowing the discount target from 10% to 7.5% with immediate effect, and would operate the enhanced buy-back programme subject to the discount being wider than this level.

By way of a special resolution at the Annual General Meeting held on 25 April 2013, Shareholders approved the renewed authority that the Company be authorised to purchase its own shares.

Such authority will expire at the Annual General Meeting of the Company in 2014 unless such authority is varied, revoked or renewed prior to such date by a special resolution of the Company in general meeting. The Board intends to seek a renewal of such authority at the Annual General Meeting of the Company in 2014.

18. RESERVES

a) Share Premium Account

	31 December 2013 £	31 December 2012 £
As at 1 January	-	-
Ordinary Shares acquired and cancelled during the year	-	(2,378,248)
Transfer from distributable reserve	-	2,378,248
At as 31 December	-	-

There were no unsettled share transactions as at 31 December 2013 or 31 December 2012.

b) Distributable Reserve

	31 December 2013 £	31 December 2012 £
As at 1 January	148,056,129	150,434,377
Transfer to Share Premium Account	-	(2,378,248)
At as 31 December	148,056,129	148,056,129

With confirmation of the Royal Court in Guernsey on 25 November 2005 the amount standing to the credit of the Share Premium account, net of issue costs, immediately following the issue of the Ordinary Shares was transferred to a Distributable Reserve and the Share Premium amount was cancelled. Approval was also granted by the Royal Court in Guernsey on 27 July 2007 to reduce the amount standing to credit of the Share Premium account, net of issue costs. The amount standing following the C Share issues of June 2006 and February 2007 was transferred to the Distributable Reserve and the Share Premium amount cancelled.

The Distributable Reserve may be applied in any manner in which the Company's profits available for distribution are able to be applied, including purchase of the Company's own Shares and the payment of dividends.

c) Accumulated Losses

Total comprehensive income for each year is attributed to an Accumulated Losses reserve account. All of the Company's profits which are accumulated within this reserve account are available for distribution, such as through the payment of dividends.

19. NET ASSET VALUE PER ORDINARY SHARE

The net asset value per Ordinary Share of £1.0975 (31 December 2012: £1.0338) is based on the Company's net assets at the year end of £128,507,777 (31 December 2012: £121,049,205) and on 117,087,877 (31 December 2012: 117,087,877) Ordinary Shares, being the number of Ordinary Shares in issue at the year end.

20. NOTES TO THE CASH FLOW STATEMENT

Purchases and sales of investments are considered to be operating activities of the Company, given its purpose, rather than investing activities. The cash flows arising from these activities are shown in the Statement of Cash Flows.

Cash and cash equivalents comprise cash at bank.

21. RECONCILIATION OF ACCOUNTING NAV AND PUBLISHED NAV PER SHARE

31 December 2013	**Net Asset Value £**	**NAV per Ordinary Share £**
Published Net Asset Value	129,426,179	1.1054
Adjustments to investments at FVTPL	(1,021,476)	(0.0087)
Adjustments to expense accruals	103,074	0.0008
Financial Statements Net Asset Value	**128,507,777**	**1.0975**

31 December 2012	**Net Asset Value £**	**NAV per Ordinary Share £**
Published Net Asset Value	121,049,205	1.0338
Adjustments to expense accruals	-	-
Financial Statements Net Asset Value	**121,049,205**	**1.0338**

As at 31 December 2013, the Directors applied an adjustment to the reported net asset value of investments held by the Company where they deemed those reported net asset values not to represent fair value. The adjustments have been based on sales negotiations and externally available evidence. The expense accruals adjustment was as a result of above adjustment on the investments and the subsequent impact this had on the Net Asset Value based fees of the Company.

22. BANK FACILITIES

The Company has a multi-purpose multi-currency revolving overdraft and foreign exchange credit facility with Bank Julius Baer & Co Limited (the "Bank") which was entered into on 11 March 2010. The Bank has agreed to provide the Company with a loan facility in the aggregate principal amount of up to the lower of £12,000,000 or 10% of the collateral value of the Company's Eligible Assets/Eligible Hedge Fund Investments deposited with the Custodian, extendable to 15% in relation to foreign exchange exposure. This facility is secured by a charge over all of the Company's underlying assets and is in accordance with the conditions of the Security Interest Agreement dated 2 November 2005 between the Company, the Bank and the Custodian. The interest rate chargeable is the Bank's floating lending rate plus a margin of 1.75% per annum payable quarterly in arrears.

The facility is terminable at any time by the Bank on 120 days notice. The Company pays an annual facility fee of £125,000 per annum.

As at 31 December 2013, the Company had drawn down £nil on this facility (31 December 2012: £nil).

Refer to note 5 for further details relating to liquidity risk.

23. DERIVATIVES

The Company hedges the majority of its currency exposure back to Sterling through the use of rolling forward foreign exchange contracts. This policy, which is an integral aspect of the Company's investment strategy, eliminated volatility that would otherwise have occurred as a result of fluctuations in the Sterling/US Dollar exchange rate over the period.

At the reporting date, the following commitments in respect of forward foreign exchange contracts existed with the Custodian:

As at 31 December 2013:

Maturity Date	**Contract amount**	**Buy**	**Sell**	**Unrealised gain £**
28 February 2014	USD (132,100,000)	USD	GBP	1,819,207
28 February 2014	USD (1,500,000)	USD	GBP	12,087
				1,831,294

(Contracted forward rate for 28 February 2014 £1: US$1.6551).

23. DERIVATIVES, continued

As at 31 December 2012:

Maturity Date	Contract amount	Buy	Sell	Unrealised gain £
26 February 2013	USD (128,200,000)	GBP	USD	1,507,937

(Contracted forward rate for 26 February 2013 £1: US$1.5948).

The total gains/losses on derivatives held for trading are shown in note 7.

24. CONTINGENT LIABILITIES AND COMMITMENTS

The Company has no contingent liabilities at the reporting date.

At 31 December 2013, the Company had total outstanding capital commitments of US$765,571 regarding its investment in Cerberus SPV LLC (31 December 2012: US$765,571).

25. RELATED PARTY TRANSACTIONS

The Investment Manager, the Sub-Manager and the Directors are regarded as related parties. The only related party transactions are described below:

The fees and expenses payable to the Investment Manager are explained in Note 10. Management fees paid during the year were £1,260,629 and the management fee balance due at the end of the year was £113,115 (31 December 2012: £200,695). Performance fees paid during the year were £1,307,490 and the performance fee balance due at the end of the year was £383,397 (31 December 2012: £304,846).

There were no direct transactions with the Sub-Manager during the year.

The Directors' fees are explained in note 10. Directors' fees paid during the year were £82,500 (31 December 2012: £82,500) and the Directors' fees payable at the end of the year were £nil (31 December 2012: £20,625).

During the year the Directors received the following amounts as dividends:

	31 December 2013 £	31 December 2012 £
J Le Pelley	27,644	20,537
R Battey	-	-
W Scott	190	177

26. POST YEAR END EVENTS

On the 29 January 2014, the Board announced that it was narrowing the discount target from 10% to 7.5% with immediate effect, and would operate the enhanced buy-back programme subject to the discount being wider than this level.

During February 2014, the Company acquired and cancelled 345,928 Ordinary Shares at an average price of 102.25p per Ordinary Share.

The Directors have declared an interim dividend in relation to the year ended 31 December 2013 of 1.92p per share which will be paid on 2 May 2014. Further details of this dividend are explained in Note 4.

There were no other significant post year end events that require disclosure in these Financial Statements.

ACENCIA DEBT STRATEGIES LIMITED
(the "Company")

(a closed-ended company incorporated in Guernsey with registration number 43787)

Notice of Annual General Meeting of Shareholders

NOTICE IS HEREBY GIVEN THAT an Annual General Meeting of Shareholders of AcenciA Debt Strategies Limited (the "Company") will be held at Sarnia House, Le Truchot, St Peter Port, Guernsey GY1 4NA on 28 April 2014 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following Resolutions:

ORDINARY BUSINESS

To consider and if thought fit, pass resolutions 1-4 as ordinary resolutions:

1. THAT the Financial Statements, Directors' Report, and Auditor's Report for the year ended 31st December 2013 be received and adopted.

2. THAT BDO Limited be re-appointed as auditor of the Company until the conclusion of the next Annual General Meeting of the Company.

3. THAT the Directors be and are hereby authorised to fix the remuneration of the Company's auditor for their next period of office.

4. THAT Richard Battey be re-elected as a Director of the Company.

SPECIAL BUSINESS

To consider and if thought fit, pass resolutions 5 and 6 as special resolutions:

5. THAT the Company be authorised, in accordance with the Companies (Guernsey) Law 2008 as amended, to make market purchases (as defined in that Law) of Ordinary Shares of No Par Value ("Ordinary Shares"), provided that:

    a. the maximum number of Ordinary Shares hereby authorised to be purchased shall be 14.99% of the issued Ordinary Shares on the date on which this resolution is passed;

    b. the minimum price which may be paid for an Ordinary Share shall be 1p;

    c. the maximum price (exclusive of expenses) which may be paid for an Ordinary Share shall be 105% of the average of the middle market quotations (as derived from the Daily Official List) of the Ordinary Shares for the five business days immediately preceding the date of purchase; and

    d. unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 31 December 2014 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2014, save that the Company may, prior to such expiry, enter into a contract to purchase Ordinary Shares under such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

    e. The Company may make a contract to purchase shares under such authority prior to its expiry which will or may be executed wholly or partly after its expiration and the Company may make a purchase of shares pursuant to such contract.

ACENCIA DEBT STRATEGIES LIMITED
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Notice of Annual General Meeting of Shareholders

6. THAT pursuant to a special resolution passed on 22 October 2010 to disapply pre-emption rights the Directors continue to be empowered to issue or allot shares for cash (within the meaning of the Articles) as if the pre-emption rights in article 45 of the Articles do not apply to such issue or allotment provided that this power shall be limited to:

   a. The issue or allotment of Shares or any class thereof in connection with an offer of securities in favour of the holders of Shares or any class thereof on the register of members at such record date as the Board may determine where the Shares or any class thereof respectively attributable to the interests of the Shareholders are proportionate (as nearly as may be practicable) to the respective numbers of Shares or any class thereof held by them on any such record date, subject to such exclusions or other arrangements as the Board may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depository receipts or any other matter; and

   b. The issue or allotment (otherwise than pursuant to sub-paragraph a of this Resolution 6) to any person or persons of Shares up to an amount not exceeding 10 per cent of the Company's issued share capital at the time of the allotment,

   and shall expire at the next AGM of the Company, save that the Company shall be entitled to make offers or agreements before the expiry of such power which would or might require Shares to be issued or allotted after such expiry and the Board shall be entitled to issue or allot Shares pursuant to any such offer or agreement as if the power conferred hereby had not expired.

By order of the Board

For and on behalf of
Praxis Fund Services Limited
As Company Secretary

Date: 1 April 2014

Registered office: Sarnia House, Le Truchot, St Peter Port, Guernsey, GY1 4NA
Channel Islands

Notes*:*

1. Any Shareholder entitled to attend, speak and vote at the meeting is entitled to appoint one or more proxies to attend, speak and, on a poll, vote instead of him. A proxy need not be a Shareholder of the Company. A Shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different Share or Shares held by the Shareholder. A Shareholder entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses in the same way. A proxy may be an individual or a body corporate who need not be a Shareholder of the Company.

2. The Form of Proxy, together with, if appropriate, any power of attorney or other authority or a notarially certified copy of any power of attorney or other authority (if any) under which it is signed, must be deposited with Capita Asset Services, PXS1, 34 Beckenham Road, Beckenham BR3 4ZF not later than forty-eight hours before the time appointed for holding the meeting.

3. To appoint more than one proxy to vote in relation to different Shares within your holding you may photocopy the form. Please indicate the proxy holder's name and the number of Shares in relation to which they are authorised to act as your proxy (which in aggregate should not exceed the number of Shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All Forms of Proxy must be signed and should be returned together in the same envelope.

Notice of Annual General Meeting of Shareholders

4. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 by 10.00am 26 April 2014. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuers agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST Sponsored Members, and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. In any case your proxy form must be received by Capita Registrars no later than 10.00am on 26 April 2014.

5. Return of a completed Form of Proxy will not preclude a Shareholder from attending and voting personally at the meeting.

6. Any corporation which is a Shareholder of the Company may, by resolution of its directors or other governing body, authorise such person as it thinks fit to act as its representative at any meeting of any class of Shareholders of the Company and the person so authorised shall be entitled to exercise the same power on behalf of the corporation which he represents as that corporation could exercise if it were an individual Shareholder of the Company.

7. To change your proxy instructions, simply submit a new proxy appointment using the method set out above. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence. Please note that the cut-off time for receipt of proxy appointments also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

8. Return of a completed Form of Proxy will not preclude a Shareholder from attending and voting personally at the meeting. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

9. Only Shareholders entered on the register of Shareholders of the Company will be entitled to receive notice of the meeting. In addition, only Shareholders registered in the register of Shareholders of the Company 48 hours before the time fixed for the meeting or adjourned meeting shall be entitled to attend, speak, and vote at the meeting in respect of the number of Shares registered in their name at that time. Changes to entries on the register after such time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

10. The notice sets out the Resolutions to be proposed at the meeting. The meeting will be chaired by a Shareholder elected by the Shareholders present in person or by proxy at the meeting.

11. The quorum for a meeting of Shareholders is two or more Shareholders (provided that they are entitled to vote on the business to be transacted at the meeting) present in person or by proxy holding 5 per cent. of the issued share capital (excluding any share capital represented by treasury shares) between them.

12. If, within half an hour from the appointed time for the meeting, a quorum is not present, then the meeting will be adjourned to 10:00 a.m. on 30 April 2014 at the same address. If, at that meeting, a quorum is not present within five minutes from the time appointed for the holding of the meeting, those Shareholders present in person or by proxy will form a quorum whatever their number and the number of Shares held by them.

13. The majority required for the passing of the ordinary resolutions is more than fifty per cent. (50%) of the total number of votes cast in favour of each Resolution. The majority required for the passing of the special resolutions is more than seventy five per cent. (75%) of the total number of votes cast in favour of the Resolution.

14. If the Resolutions are duly passed at the meeting (or any adjourned meeting thereof), and other necessary formalities are completed, this will result in all of the proposed Resolutions becoming binding on each Shareholder in the Company whether or not they voted in favour of the resolutions, or voted at all.

15. To allow effective constitution of the meeting, if it is apparent to the chairman that no Shareholders will be present in person or by proxy, other than by proxy in the chairman's favour, then the chairman may appoint a substitute to act as proxy in his stead for any Shareholder, provided that such substitute proxy shall vote on the same basis as the chairman.

16. At any meeting, a resolution put to the vote shall be decided by a show of hands or by a poll at the option of the chairman. Nevertheless before or on the declaration of the result a poll may be demanded by the chairman; or by one Member present in person or by proxy. The demand for a poll may be withdrawn.

17. Unless a poll be demanded a declaration by the chairman that a resolution has on a show of hands been carried or carried unanimously or by a particular majority or lost and an entry to that effect in the minute book shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded.

ACENCIA DEBT STRATEGIES LIMITED
MANAGEMENT AND ADMINISTRATION

Directors
J Le Pelley (Independent non-executive Chairman)
R Battey (Independent non-executive Director)
W Scott (Independent non-executive Director)

Registered Office and Directors' Address
Sarnia House
Le Truchot
St Peter Port
Guernsey GY1 4NA

Investment Manager
Saltus (Channel Islands) Limited
Sarnia House
Le Truchot
St Peter Port
Guernsey GY1 4NA

Sub-Manager
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72 New Bond Street
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Investment Adviser
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Roseland
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USA

Custodian
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(Guernsey Branch)
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St Peter Port
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Independent Auditor
BDO Limited
P.O. Box 180
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Rue du Pre
St Peter Port
Guernsey GY1 3LL

Administrator and Secretary
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Sarnia House
Le Truchot
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Guernsey GY1 4NA

Registrar
Capita IRG Registrars (Guernsey) Limited
2nd Floor
1 Le Truchot
St Peter Port
Guernsey GY1 4AE

Legal Advisers in Guernsey
Carey Olsen
Carey House
Les Banques
St Peter Port
Guernsey GY1 4BZ

Legal Advisers In United Kingdom
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20 Cursitor Street
London EC4A 1LT

Financial Adviser/Corporate Broker
J.P.Morgan Cazenove (ceased 6 February 2014)
20 Moorgate
London EC2R 6DA

Canaccord Genuity Limited (appointed 6 February 2014)
41 Lothbury
London EC2R 7AE

Placing Agent
Kepler Partners LLP
Bennet House
54 St James's Street
London SW1A 1JT