

## HONEYCOMB INVESTMENT TRUST PLC

### Annual Financial Report for the year ended to 31 December 2020

The Directors present the Annual Financial Report of Honeycomb Investment Trust plc (the "Company") for the year ended 31 December 2020. A copy of the Company's Annual Report will shortly be available to view and download from the Company's website, [www.honeycombplc.com](http://www.honeycombplc.com). Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on the Company's website (or any other website) is incorporated into or forms part of this announcement.

The information set out below does not constitute the Company's statutory accounts for the year ended 31 December 2020 but is derived from those accounts. Statutory accounts for the year ended 31 December 2020 will be delivered to the Registrar of Companies in due course. The Auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the Auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The rest of the Auditors' report can be found in the Company's Annual Report and Accounts at page 65.

The following text is copied from the Annual Report & Accounts:

### Strategic Report

#### The Company

Honeycomb Investment Trust plc ("the Company" or "Honeycomb") is a UK-listed investment trust dedicated to providing investors with access to asset backed lending opportunities that Pollen Street Capital Limited ("Pollen Street" or the "Investment Manager") believes have potential to generate high income returns together with strong capital preservation.

#### Investment Objective

The investment objective of the Company and its subsidiaries (together, the "Group") is to achieve an attractive level of dividend income with capital preservation growth, primarily through lending to non-bank lenders and selected equity investments that are aligned with the Group's strategy.

#### Investment Manager

Pollen Street serves as the Company's investment manager. Pollen Street is an independent, alternative investment management company specialising in the financial services sector and has extensive experience investing in both credit and private equity strategies across both banks and non-bank lenders.

### Performance Highlights

#### Dividend Yield

2019	8.0%
2020	8.0%
Target	8.0%

Dividend yield stable at 8.0 per cent of IPO issue price - in line with the published target.

Note - target dividend is not a profit forecast

#### NAV Return

2019	7.8%
2020	7.7%

NAV return stable at 7.7 per cent - broadly in line with 2019 - demonstrates resilience to Covid-19 pandemic

## NAV per share

31 December 2019	1,015p
31 December 2020	1,013p

NAV per share stable.

## Share Price

31 December 2019	972p
31 December 2020	943p

Share price closed the year at 943p

*Dividend Yield: calculated as the total declared dividends for the period divided by IPO issue price. NAV Return: calculated as Net Asset Value (Cum Income) at the end of the year, plus dividends declared during the year, less NAV (Cum Income) at the end of the year, divided by NAV (Cum Income) calculated on a per share basis. NAV per Share: Net Asset Value (Cum Income) at the end of the year, divided by the number of shares. Share Price: closing mid-market share price at month end (excluding dividends reinvested).*

## Investment Characteristics

### NON-BANK LENDING

The non-bank lending sector has been an important provider of finance for many decades and following the global financial crisis, the role of non-bank lenders became increasingly critical to a well-functioning lending market as the large traditional banks fundamentally changed their approach to the lending markets that they were focussed on. Faced with both internal and external pressures, they retrenched from many products and services and focused on only vanilla, commodity markets where scale and cost of funding enable them to remain relevant and competitive.

Specialist players, able to tailor products to meet the needs of target customer groups, often combining strong service standards coupled together with deployment of data and technology to curate highly attractive products in their selected fields provide a critical role in ensuring important parts of the economy continue to be serviced by high quality lending products.

The non-bank lending market is already large at an estimated £330 billion (*Bank of England, Ernst & Young, Financing & Leasing Association and Pollen Street Internal estimates*) in the UK alone, and these structural changes have been exacerbated by Covid-19 disruption.

### IMPACT

Impact investments are a key focus, specifically focused on Financial Inclusion, Regional Growth, Energy Efficiency and Affordable Housing.

As traditional banks retrench, they exclude an increasing number of ordinary working people from their service levels. Some reports suggest that 25% of all adults in UK do not meet the criteria for mainstream banking offerings and therefore there is an important role to play for non-bank lenders to offer tailored products to ensure supportive and appropriate financial inclusion across the economy.

As the population becomes more engaged in having a positive impact and seeking to live their lives on a sustainable basis, these focused lending products to finance energy efficient products in the home and transportation, for example. They have an important role to play in enabling ordinary people to finance life improvements.

Finally, as a highly respected lender to these lending businesses the Group through the Investment Manager can bring a consistency of governance and ensure that ethical, sustainable, and responsible practices are built into all investment processes.

### HONEYCOMB PROPOSITION

The Group provides predominantly senior lending to non-bank lenders secured on their underlying loan portfolios.

This approach allows Honeycomb to benefit from the advanced origination and underwriting capabilities of its partners secured against their portfolios of loans primarily on a senior basis. The lending partner is fully aligned with the Group and their return is realised after the debt of the Group is serviced. Typically loans are of short duration, with an average life of 2 to 3 years and an amortising profile that removes refinancing and exit risk.

The investment objective is to deliver consistent returns and a diversified portfolio with high quality partners, rigorous investment process and robust downside protection. Sector specialism, strong networks with partners and proprietary deal flow are key facilitators in driving compelling returns, while stringently monitoring and managing risk. The Company aims to be the market-leading finance partner to the non-bank sector.

The combination of this asset backed strategy and the speed of growth amongst non-bank lenders drives high and stable income generation alongside a large and growing market opportunity for the Company to be highly selective in the loans it provides. This means the Company has a low volatility in NAV and dividend resilience.

## Impact

The Group's focus on Impact is built around 5 key areas where Honeycomb makes a meaningful difference:

1	Lending to support SMEs and communities is ever more critical in the current environment. We work with lenders who are close to their customers and are able to offer tailored products to support them in a prudent way.
2	Our real estate lending strategy is critical to improving the quality of the property stock and the creation of affordable, efficient and good value homes.
3	Our lending supports financial inclusion at a time when mainstream lenders are offering only vanilla automated products. Some reports suggest that 25% of all adults in the UK do not meet the criteria for mainstream banking offerings. There is an important role to play for non-bank lenders to offer tailored products to ensure supportive and appropriate financial inclusion across the economy. Our partners are nimble and work closely with customers to provide high-quality lending offerings to people who are otherwise underserved by traditional providers.
4	Reducing the carbon footprint and energy consumption of homes is one of the key ways that individuals can have a real positive impact on the environment. Our lenders help finance home improvements that improve energy efficiency, and we are now also focused on the electrification of transport.
5	All our lending partners are required to demonstrate and embed the highest quality of governance and their own three lines of defence which we ensure is being complied with as part of our on-going monitoring.

Overall, there is a great opportunity for Honeycomb to support specialist lenders with more nimble business models being able to work closely with customers, react quickly to the changing environment and to create tailored and responsible lending products to support the economy and the environment.

## Chairman's Statement

I am pleased to present the Annual Report for Honeycomb Investment Trust plc which covers the year ended 31 December 2020.

The Company is a UK listed company dedicated to providing investors with access to the non-bank lending market. Within this market, the Investment Manager identifies lending opportunities that it believes have potential to provide high income returns together with strong capital preservation.

2020 has been an exceptional year. The Coronavirus pandemic ("Covid-19") is continuing to have far-reaching effects on society and the economy with governments around the world providing unprecedented levels of support.

Despite this hugely challenging environment, the Group has performed very well throughout the year. This performance affirms our confidence in the resilience of the investment strategy.

The recent progress made on national vaccination programmes is encouraging, however uncertainty remains and the Board continues to work closely with the Investment Manager to continue to position the Company prudently while delivering consistent returns.

The underlying earnings for the year were strong at £26.2m. One off costs in relation to securing long term debt facilities, the potential merger with Pollen Street Secured Lending and the change in listing totalled £5.5m resulting in reported earnings for the year of £20.7million (2019: £31.2 million).

## INVESTMENT PERFORMANCE

2020 has been another successful year for the Company with two areas of performance to highlight.

Firstly, Honeycomb has delivered a NAV return of 7.7% over 2020. This is broadly unchanged from the prior year (2019: 7.8%). The stability of returns is particularly pleasing given the economic backdrop. The stable returns are a result of the conservative investment strategy that focuses on senior secured credit investments. The bridge on page 14 of the Annual Report and Accounts provides further details on the composition of the NAV return.

Secondly, the impairment charge for the year has reduced by 24% to £5.58 million in 2020, from £7.37 million in 2019. The reduction in impairment charge is attributable to the focus on senior secured credit that protects the Company from adverse credit losses as well as the exit of a £45m unsecured consumer loan portfolio in August 2020.

## DIVIDENDS

The Company reaffirmed its dividend target in August 2020 and continued to declare dividends at 20.00 pence per share each quarter. This is in line with the target dividend yield of 8.0 per cent annualised dividend on the issued share price at the Company's initial public offering.

## SHAREHOLDERS

The composition of the share register changed in early 2020 with several new global institutional investors welcomed onto the register.

In October 2020 the Company was admitted to trading on the Premium Segment of the London Stock Exchange's main market, a move up from the Specialist Funds Segment. This is an important step to make shares more accessible to a wider range of investors as the Group looks to continue in its growth.

The Company is required to propose a discontinuation vote at the upcoming annual general meeting ("AGM") given the shares have traded at an average of more than 10% discount to NAV in the period.

## SHARE PRICE AND BUYBACKS

Covid-19 brought volatility to the market as well as the Company's share price. The Board responded by announcing on 10 August 2020 a buy back initiative with a clear commitment to continue buybacks until the shares traded at less than a 5% discount to NAV.

The Company bought back 4,190,178 shares throughout the course of the year at an average price of 821p. The share price responded well and closed the year at 943p (31 December 2019: 972p), which is a 7.0% discount to NAV per share 1,013p (2019: 4.2% discount; 1,015p)

## GOVERNANCE

The Board plays a key role in supporting and challenging the Company's long-term strategic planning. This includes a rigorous assessment of both the risks and opportunities presented by the evolving market environment and considering the interests of key stakeholders. The oversight is exercised through the Board's committee structure and further information is provided in the Board committee reports.

In January 2021, we were delighted to appoint Joanne Lake to the Board. Joanne has a wealth of experience in financial services and brings valuable expertise and diversity to the Board.

Following Joanne's appointment, we announced a revision to the committee structure with effect from 1 March 2021 to establish separate committees for audit, risk, remuneration and nomination matters. In conjunction with this, Jim Coyle was appointed as senior independent director. Further information on the board appointments is provided below.

The Board has supported the Investment Manager's Environmental Social and Governance ("ESG") programme over the course of the year to ensure the Company has a positive ESG impact. This is ever more critical in the current environment and the Board is excited about continuing to build on early success so far.

These changes reflect the Board's ongoing commitment to the highest standards of corporate governance.

## OUTLOOK

2020 has been a period of exceptional stress for businesses and individuals. Honeycomb is emerging in a stronger position than it was at the start of the year for three reasons.

Firstly, the stability of the NAV returns over 2020 and 2021 demonstrate the resilience of the investment strategy. The strategy focuses on secured credit investment, which is a structure that aligns interests between Honeycomb and its partners. The Board and the Investment Manager are conscious that the potential impact of the government support coming to an end is uncertain. However, we believe the strategy will continue to deliver stable shareholder returns.

Secondly, Covid-19 has broadened the market opportunities for Honeycomb. Many non-bank lenders are seeing opportunities to grow and take market share from traditional banks. The Company continues to aim to be the market-leading finance partner to the non-bank sector.

Finally, the Company is now benefitting from longer term debt facilities with more surplus funding capacity and more diversified funding providers than it did at the start of the year.

I look forward to working with Pollen Street throughout 2021 as it continues to manage Honeycomb's investments to deliver the best outcomes for shareholders.

**Robert Sharpe**

Chairman

29 April 2021

## Investment Manager's Report

The Investment Manager, Pollen Street Capital, is an independent asset manager working across private equity and credit strategies. Pollen Street was formed in 2013 and possesses a strong and consistent track record within the financial and business services sectors.

Pollen Street has significant experience in lending markets. Its strategy is focused on providing finance to the non-bank lending sector enabling these businesses to grow and support their customers with strong product propositions. The Investment Manager believes there is a significant opportunity to earn attractive returns from lending to a broad range of businesses focused on different subsets of the lending market. Pollen Street has built deep expertise in lending to non-bank lending business, including a network of more than 50 high quality non-bank lenders, mainly in the UK.

The Investment Manager provides the Group with access to an established network of these specialist lenders. The relationship with these partners extends beyond Pollen Street being simply providers of capital. Pollen Street leverages its expertise to enable the platforms it partners with to outperform across all stages of the credit cycle. The relationships and expertise created are difficult to replicate and help provide more stable and attractive returns. The Investment Manager is deeply involved in the underwriting decisions, the customer journey and collections.

## FINANCIAL RESULTS

The Group has maintained its track record of investment performance with NAV return of 7.7 per cent (2019: 7.8 per cent) and dividend yield of 8.0 per cent (2019: 8.0 per cent).

Average Credit Assets reduced to £551m in 2020 from £573m in 2019 as the Manager focused on cash generation following the onset of Covid-19. The reduction in average Credit Assets together with the repositioning of the portfolio to structurally secured loans and reductions in benchmark interest rates reduced both interest income and impairment charges. The offsetting impact of these two factors was a net reduction in earnings of £6m.

Offsetting some of the strong performance in the asset portfolio were one-off costs incurred in relation to the debt facilities and costs incurred in relation to the potential merger. The existing debt facilities matured in April 2020 and due to the Covid-19 pandemic the refinancing with a new bank was delayed. This created additional cost in agreeing an extension to our existing debt before refinancing onto a larger more flexible facility. In September 2020, the Company completed a new £250 million three-year facility with a global bank and in the same period refinanced two of its special purpose vehicles. As a result, Honeycomb ended the year with reported earnings of £20.7 million (2019: £31.2 million) and increased and longer-term debt facilities providing a strong liquidity position and the ability to fund our plans for growth over the medium term.

Underlying earnings for the year were strong at £26.2m, driven by the strong performance in the credit portfolio:

	2019	2020
Profit before one-offs	£31.9m	£26.2m
One-off debt costs	-	(£4.3m)
Potential merger costs	(£0.1m)	(£0.6m)
Other one-off costs	(£0.6m)	(£0.6m)
<b>Reported profit</b>	<b>£31.2m</b>	<b>£20.7m</b>

We reduced the borrowings during the summer and used cash generation to return capital to shareholders through value enhancing share buybacks, bringing net debt to equity to a low of 38.1 per cent. The new debt facilities have since been utilised to fund assets, with the asset base now at the same level as before Covid-19 and the Group ending the year with a net debt to equity of 59.1 per cent.

The Company has continued to meet its target dividend of 8.0 per cent based on the IPO issue price over the period and has maintained its NAV per share (cumulative of income) at the end of the period of 1,013 pence per ordinary share (2019: 1,015 pence) at 31 December 2020.

As with the wider UK market, there was deterioration in the share price during the Covid-19 crisis. In order to address this discount, the Company repurchased 4,190,178 of its own shares during the year. This buyback scheme, in combination with improved market confidence, helped the share price to finish the year at 942.5 pence per share. (2019: 972.5 pence per share). Whilst we are disappointed that the Company continues to trade below its net asset position, we believe that it doesn't reflect the strong underlying performance, and we are pleased to see this improvement through a difficult period.

## OTHER HIGHLIGHTS

In addition to the resilient financial performance, the Company has:

- Continued to reposition the portfolio into more structured and secured loans and away from consumer whole loans. This reduces the risk of underperformance in the portfolio.
- Been admitted to trading on the Premium Segment of the London Stock Exchange's main market as of 28 October 2020, a move up from the Specialist Funds Segment.

## PORTFOLIO OVERVIEW

The portfolio is focused on secured Credit Assets. These are loans to counterparties that benefit from two forms of protection:

- The Company has security over the underlying loan portfolios for many deals meaning that it has the right to realise the collateral to cover any shortfall on its loans
- The Company has seniority over other creditors and equity holders for many deals meaning that other counterparties bear the first loss from any underperformance before the Company.

The resilience of the portfolio through this challenging year demonstrates the strategy of selecting only the assets that meet the strict risk adjusted returns criteria and maintaining strong credit quality. The portfolio is composed of two types of deal:

- **Structured loans:** Loans to non-bank lenders secured on their underlying loan portfolios. As at 31 December 2020, the portfolio of structured loans consists of £301 million across 22 facilities with an average balance outstanding per facility of £13.7 million. The facilities have an average loan to value of 65 per cent and benefit from robust covenants.
- **Direct portfolios:** Portfolios of loans owned directly by the Group, typically secured on property. As at 31 December 2020, this was £253 million across 24 portfolios, 86 per cent or £218 million of this portfolio is secured on property, with an average loan to value (“LTV”) of 62 per cent.

*Loan to value is defined as the Group’s loan as a percentage of the outstanding capital balance of the portfolio it is secured against.*

## COVID-19 IMPACT

The Investment Manager maintained a close and proactive engagement with all platform partners. This approach together with the structural protection and asset backing of the portfolio is expected to maintain the portfolio in a robust position.

The Investment Manager carefully tracked cash collections from the onset of the crisis. This has demonstrated the resilience of the speciality finance industry with cash collections returning to pre-pandemic levels by Q3.

Forbearance was applied sensitively and proportionately with forbearance statistics tracked on a daily basis. The significant majority of customers who took payment holidays returned to full contractual payments by 31 December 2020.

## CREDIT PERFORMANCE & RISK MANAGEMENT

The Company’s financial statements have been prepared in accordance with both international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards (“IFRS”) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. Under IFRS 9, impairment losses are recognised on a forward-looking basis, taking into account both the risk profile of the Credit Assets and the macroeconomic outlook at the balance sheet date.

The impairment charge for the year has reduced by 24% to £5.58 million in 2020 from £7.37 million in 2019. The reduction in impairment charge is attributable to the Company’s continued focus on senior secured Credit Assets. At 31 December 2020, 91% of the assets were senior secured (31 December 2019: 82%).

The total impairment charge for 2020 has reduced despite a £2.3 million additional charge recognised in 2020 (2019: nil) to cover credit losses forecast to arise as a result of the change to the macro-economic outlook arising from Covid-19. The majority of this, £2.0 million, is attributable to the worsening macroeconomic outlook between 31 December 2019 and 31 December 2020 due to Covid-19. The remainder, £0.3 million, is a provision for loans in Covid-19 forbearance. This is recognised as customers enter forbearance in anticipation of a proportion of them missing payments as they leave forbearance.

As at 31 December 2020 the Expected Credit Loss (“ECL”, “Impairment Provision”) balance was £30.5 million (31 December 2019 £30.2 million). The consumer portfolio makes up 65.6 per cent of the ECL at £20.0 million, property £10.3 million and SME £0.2 million.

The risks arising from the investment assets are managed very closely. The Group’s performance is linked to the health of the economy and the Group could experience further impairments and consequently reduced profits if economic expectations deteriorate. However, the risk of this has been mitigated by a focus on credit investments secured on loan portfolios of non-bank lenders with strong downside protection from senior ranking to the lender or borrower equity as well as security over the cashflow generated by the loan portfolio. This senior ranking provides insulation from increasing defaults in the portfolio and provides stability of returns.

## OUTLOOK

The strong financial performance has continued following the end of the financial year with annualised NAV returns of 7.9% in January, 8.3% in February and 8.9% in March.

The pipeline of new potential investments remains strong with non-bank lenders seeing opportunities to grow and take market share from traditional banks. The Covid-19 pandemic has further accelerated this structural change and the Company continues to aim to be the market-leading finance partner to the non-bank sector.

Covid-19 continues to cause major disruption across the globe but the Investment Manager continues to have confidence in the strength of the performance of the asset class. The Group is well diversified and the resilience exhibited by the speciality finance industry throughout Covid-19 allowed cash collections from investment portfolio to return to pre-pandemic levels by Q3.

In an evolving market and regulatory environment, we are committed to maintaining the discipline and high standards of governance of our established business model.

In the uncertain environment, we continue to adopt a proactive and prudent approach and our deep relationships have helped our partners to continue to maintain and develop their businesses appropriately. Further partners have been on-boarded which have supported this growth while the profile of risk and return remains robust.

We are proud to continue to deliver strong returns for Honeycomb shareholders through all environments since inception in 2015 and especially over 2020. We look forward to working with the Board over 2021 as we continue to manage the Company.

## Pollen Street

29 April 2021

## Top Ten Holdings

		Country	Deal Type	Sector	Value of holding at year-end (£m) <sup>(1)</sup>	LTV	Percentage of assets <sup>(2)</sup>
1	UK Agriculture Limited	United Kingdom	Direct Portfolio	Property	51.0	49%	9.0%
2	Creditfix Limited	United Kingdom	Structured	Discounted Fee Receivables	50.4	41%	8.9%
3	Nucleus Cash Flow Finance Limited	United Kingdom	Structured	SME CBILS	46.5	96%	8.2%
4	Sancus Loans Limited	United Kingdom	Structured	Property	44.9	51%	7.9%
5	GE Portfolio	United Kingdom	Direct Portfolio	Secured Consumer	40.0	61%	7.0%
6	Oplo Structured	United Kingdom	Structured	Secured Consumer	35.3	95%	6.2%
7	Oplo Direct Portfolio	United Kingdom	Direct Portfolio	Secured Consumer	31.1	68%	5.5%
8	Propfin Limited	United Kingdom	Structured	Property	21.1	64%	3.7%
9	Amicus Commercial Mortgages	United Kingdom	Direct Portfolio	Property	21.0	65%	3.7%
10	Downing Development Loans	United Kingdom	Direct Portfolio	Property	17.9	81%	3.1%

(1) Direct portfolios have been aggregated by originator and servicer

(2) Percentage of total investment assets of the Group (investment assets calculated as the carrying balance of all credit assets at amortised cost, credit assets held at fair value through profit or loss and equity investments held at fair value through profit or loss).

As at 31 December 2020 the value of the top 10 assets totalled £359.2 million (2019: £231.5 million) which equated to 63.2 per cent (2019: 39.3 per cent) of investment assets (investment assets calculated as the carrying balance of all credit assets at amortised cost and credit and equity investments held at fair value through profit or loss).

## ESG Programme

The Investment Manager has embedded Environmental, Social and Governance “ESG” as a core part of its investment process – from identifying ESG risks pre-acquisition, through to working with credit partners post-acquisition to embed this ESG framework, drive value creation and monitor performance against key criteria - and operates on a continuous-improvement basis.

<b>Monitoring of ESG impacts</b>	<p>Pollen Street collects data across its credit portfolio, tracking impact against the 5 key areas where we believe we can make a meaningful difference. We aim to measure progress to support; regional growth, affordable housing, financial inclusion, reduction in carbon footprint of homes and embedding the highest standards of governance in lending.</p> <p>For example, Pollen Street Capital's credit facilities have supported:</p> <ul style="list-style-type: none"> <li>• 11,000+ households to install a new boiler</li> <li>• 9,000+ households to switch to renewable energy</li> <li>• 5,000+ households in the provision of insulation</li> </ul>
<b>ESG in the investment process</b>	<p>Through upfront due diligence, Pollen Street identifies how strong the prospective credit partner's ESG programme is, and where we can support them as they develop ESG policies and practices as they join the portfolio. The assessment covers areas such as ESG risks, along with the focus areas in our impact framework.</p>
<b>Governance and oversight</b>	<p>Since 2019, Pollen Street has extended the use of the Pollen Street Hub to encompass the ESG agenda. The Hub aims to drive the practical application of ESG issues with a focus on core areas of impact, along with reporting of activities and sharing of best-practice. Pollen Street have an ESG committee in place which is responsible for setting the strategy, framework and processes to ensure that effective ESG policies are implemented and overseen.</p>
<b>Engagement and embedding ESG within Pollen Street</b>	<p>Pollen Street, led by its partners, has sought to increase awareness of the impact it can have, and increase the prominence of ESG considerations. Pollen Street uses the UN Sustainable Development Goals to seek to ensure all investments meet minimum standards, while seeking to make the most significant impact for its investors. Pollen Street operates an ESG policy, which seeks to make the most significant impacts where opportunities arise.</p>
<b>Creating partnerships for lasting impact</b>	<p>Pollen Street has sought to make continued improvements in embedding ESG. Two examples include (i) the launch of a Firm-wide philanthropy programme which seeks to engage employees across the Firm to determine which charities it should support, and the most effective way to do so; and (ii) Pollen Street has engaged Ten Years' Time (part of the Social Investment Consultancy) to assist in identifying areas where Pollen Street can have a greater impact on ESG issues.</p>

The Investment Manager is a signatory to the UN Principles of Responsible Investment and seeks to drive continued improvement through the ESG initiatives that it has in place across the portfolio.

Pollen Street is proud to have published its inaugural ESG Report and announced the selection of partners for its Ten Years' Time program. Our program aims to connect our ESG impact with the firm and its incredible people and expertise, and for our people to go beyond our portfolio to make an impact. The selected partners are detailed below.

<b>Future First</b>	<p>Future First is a charity that aims for every state school and college in the UK to be supported by a thriving and engaged alumni community, which improves students' motivation, confidence and life chances.</p>
<b>Big Issue Invest</b>	<p>Founded in 2005, Big Issue Invest extends The Big Issue's mission to dismantle poverty through creating opportunity by financing the growth of sustainable social enterprises and charities across the UK.</p> <p>Big Issue Invest offers social enterprises, charities and profit-with- purpose businesses, loans and investment from £20,000 to £3 million. Since 2005, Big Issue Invest have invested in approximately 300 social enterprises and charities, all of which have positively influenced the lives of an estimated 1 million people across the UK.</p>

<b>Blue Ventures</b>	Blue Ventures develops transformative approaches for catalyzing and sustaining locally-led marine conservation. They work in places where the ocean is vital to cultures and economies, and are committed to protecting marine biodiversity in ways that benefit coastal people.
<b>Council for Investing in Female Entrepreneurs</b>	The Council for Investing in Female Entrepreneurs (CfIFE) aims to support female entrepreneurs by tackling barriers to funding available and accessible by them. The Council is a community of firms and individuals who are passionate about achieving long-term behavioural changes to close the funding gender gap, and was created as a result of the Alison Rose Review of Female Entrepreneurship, published in March 2019.

## POLLEN STREET CAPITAL'S ESG FRAMEWORK

Guided by the UN's sustainable development goals

<b>Marketplace</b>	Providing the best outcomes. We ensure the products and services we provide benefit individuals, SMEs, suppliers and investors.
<b>Environment</b>	Creating a lasting environmental impact, recognising our responsibility to do better. WE are committed to identify and improve the environmental impact of our operations.
<b>Workplace</b>	We strive to create a positive working environment for our people at the Group and portfolio level, and drive initiatives to engage our people and promote diversity and inclusion.
<b>Governance &amp; leadership</b>	We ensure we are appropriately accountable for our decisions, implementing regulatory best practice through all operational processes with the ability to identify and manage all material risk factors, including ESG risks.
<b>Community</b>	We are strategic with our Social Investment efforts, to best leverage the skills and resources Pollen Street and the portfolio has available. We focus on efforts that provide real benefits and which address relevant issues.

## Business Review

The Strategic Report has been prepared to help shareholders assess how the Group works and how it has performed. The Strategic Report has been prepared in accordance with the requirements of Section 414A to 414D of the Companies Act 2006 (the "Act"). The business review section of the Strategic Report discloses the Group and Company risks and uncertainties as identified by the Board, the key performance indicators used by the Board to measure the Group's performance, the strategies used to implement the Group's objectives, the Group's environmental, social and ethical policy and the Group's anticipated future developments.

## KEY INFORMATION

Honeycomb Investment Trust plc (the "Company") is a closed-ended investment company incorporated and domiciled in the United Kingdom on 2 December 2015 with registered number 09899024. The Company is a publicly listed company. The registered office is 6th Floor, 65 Gresham Street, London, EC2V 7NQ, United Kingdom.

## PRINCIPAL ACTIVITY

The Group carries on business as an investment trust and its principal activity is investing in Credit Assets and Equity Assets (each as defined below), with a view to achieving the Group's investment objective. Investment companies are a way for investors to make a single investment that gives a share in a much larger portfolio. A type of collective investment, they allow investors opportunities to spread risk and diversify in investment opportunities which may not otherwise be easily accessible to them. For more information on investment companies, please see: <http://www.theaic.co.uk/guide-to-investment-companies>.

## IMPAIRMENT REVIEW

As at 31 December 2020 the Expected Credit Loss (“ECL”) balance was £30.5 million (31 December 2019 £30.2 million). The consumer portfolio makes up 65.6 per cent of this total split £20.0 million, property £10.3 million and SME £0.2 million. There has been little change in the balance due to an increase in the ECL charge of £5.6m, offset by a release through a sale of a portfolio of consumer loans. The increase in ECL charge is split with the consumer portfolio contributing £5.4 million, property £0.2 million and SME £nil. Assets moving to Stage 3 were the key driver behind this. The consumer portfolio continues to see the biggest ECL as it is unsecured and therefore does not benefit from any structural protection or security that could reduce the impact once a loan rolls into arrears.

The outbreak of Covid-19 is causing major disruption across the globe. The principal effects of the outbreak in the UK began in March 2020. At this time a £1.8m one-off increase in provisioning was taken by changing the IFRS 9 economic weighting to 100% downside, in the absence of reliable detailed economic forecasting at the time. This was from the downside scenario set as part of the December 2019 review of provisioning and was broadly consistent with the initial views of the economic outlook indicated by third-party economic advisers at the time. This charge related to anticipated potential losses as opposed to realised losses. Full updates for new economic scenario data were implemented in June 2020 and December 2020 with minimal impact against the initial charge taken in March 2020.

In addition to the change in economic outlook we saw requests for forbearance. Additional provision coverage was placed on these loans, in line with the regulatory and Bank of England guidance. By the end of 2020 a significant majority of borrowers had left payment holidays and returned to paying and so the impact of this coverage is minimal.

The downside protection built into the majority of the portfolio has limited the impact of Covid-19 on the ECL charge and the Investment Manager continues to have faith in the strength of the performance despite these unprecedented conditions. However, given the Group’s activities, its performance is linked to the health of the economy and consequently if economic expectations deteriorate against current expectations the Group would experience further impairments.

## STRATEGIC AND INVESTMENT POLICY

The Group’s investment objective is to provide shareholders with an attractive level of dividend income through investing in loans where the underlying collateral is either consumer, commercial or property backed (“Credit Assets”) together with related investments that are aligned with the Group’s strategy and that present opportunities to enhance the Group’s returns from its investments (“Equity Assets”).

Once the Group has incurred borrowings in line with its borrowing policy, the Group will target the payment of dividends which equate to a yield of at least 8.0 per cent per ordinary share per annum on the issue price for the IPO placing, based upon the average number of shares in issue for the period, payable in quarterly instalments (the “Target Dividend”). Investors should note that the Target Dividend, including its declaration and payment dates, is a target only and not a profit forecast.

The Group believes that certain sub-segments of the speciality finance market have the potential to provide attractive returns for investors on a risk-adjusted basis, and that changes in the focus of mainstream lenders, together with the implementation of new models that make the best use of data, analytics and technology, provide an opportunity to deliver attractive products to borrowers while generating attractive returns for the Group.

The Group has entered into an origination agreement with Honeycomb Finance Limited (the “Origination Partner”) whereby the Origination Partner agreed to provide the Group with opportunities to acquire Credit Assets originated or acquired by it which meet specified underwriting criteria relating to the underlying borrower and the corresponding terms of credit (which may be modified from time to time at the discretion of the Investment Manager). The Group and the Investment Manager will also actively seek opportunities to acquire portfolios from third parties and make investments in loans to specialist lenders.

### Asset allocation and risk diversification

Credit Assets invested in by the Group consist of financing loans, within a range of sub-sectors selected based on their risk/return characteristics. These sub-categories may include, but are not limited to, personal loans, point of sale financing, home improvement loans and loans to small businesses.

The Group’s investment in Credit Assets encompasses the following investment models:

1. Structured Loans. The Group identifies top performing non-bank lenders that provide finance to a tightly defined target audience. Senior financing is provided with security over real assets;
2. Direct Portfolios. These portfolios of directly owned loans are typically sourced from established relationships with non-banks and are typically secured on underlying assets i.e. property; and

The Group may undertake such investments directly, or via subsidiaries or special purpose vehicles (“SPVs”). It is also possible that the Group may seek to use alternative investment structures which achieve comparable commercial results to the investments described above (such as, without limitation, sub-participations in loans, credit-linked securities or fund structures), but which offer enhanced returns for the Group or other efficiencies (such as, without limitation, efficiencies as to origination, funding, servicing or administration of the relevant Credit Assets).

The Group also invests in Equity Assets. The Group shall invest no more than 10 per cent of the aggregate net proceeds of any issue of shares in Equity Assets, calculated, in each case, at the time of acquisition of any relevant Equity Assets based on the consideration payable for those Equity Assets and the aggregate consideration paid for all previous investments in Equity Assets which form part of the portfolio. This restriction shall not apply to any consideration paid by the Group for the issue to it of any Equity Assets that are convertible securities. However, it will apply to any consideration payable by the Group at the time of exercise of any such convertible securities or any warrants issued. The Group may invest in Equity Assets indirectly via other investment funds (including those managed by the Investment Manager or its affiliates).

## INVESTMENT RESTRICTIONS

The Group will invest in Credit Assets originated across various sectors and across credit risk bands to ensure diversification and to seek to mitigate concentration risks. The following investment limits and restrictions apply to the Group to ensure that the diversification of the portfolio is maintained, that concentration risk is limited and that limits are placed on risk associated with borrowings.

The Group will not invest, in aggregate, more than 10 per cent of the aggregate value of total assets of the Group (“Gross Assets”), at the time of investment, in other investment funds that invest in Credit Assets.

The Group will not invest, in aggregate, more than 50 per cent of Gross Assets, at the time of investment, in Credit Assets comprising investments in loans alongside or in conjunction with Shawbrook Bank (“Shawbrook”) or referred to the Origination Partner by Shawbrook.

The following restrictions apply, in each case at the time of the investment by the Group:

- No single Credit Asset comprising a consumer credit asset shall exceed 0.15 per cent of Gross Assets;
- No single SME or corporate loan, or trade receivable, shall exceed 5.0 per cent of Gross Assets; and
- No single facility, security or other interest backed by a portfolio of loans, assets or receivables (excluding any borrowing ring-fenced within any SPV which would be without recourse to the Group) shall exceed 20 per cent of Gross Assets. For the avoidance of doubt, this restriction shall not prevent the Group from directly acquiring portfolios of Credit Assets which comply with the other investment restrictions described in this section.

The Group will not invest in Equity Assets to the extent that such investment would, at the time of investment, result in the Group controlling more than 35 per cent of the issued and voting share capital of the issuer of such Equity Assets. No restrictions were breached at any point during the year ended 31 December 2020, or the year ended 31 December 2019.

### Other restrictions

The Group may invest in cash, cash equivalents, money market instruments, money market funds, bonds, commercial paper or other debt obligations with banks or other counterparties having single-A (or equivalent) or higher credit rating as determined by an internationally recognised agency or systemically important bank, or any “governmental and public securities” (as defined for the purposes of the Financial Conduct Authority’s Handbook of rules and guidance) for cash management purposes and with a view to enhancing returns to shareholders or mitigating credit exposure.

The Group will not invest in Collateralised Loan Obligations (“CLO”) or Collateralised Debt Obligations (“CDO”). CLO’s are a form of securitisation whereby payments from multiple loans are pooled together and passed on to different classes of owners in various tranches. CDO’s are pooled debt obligations where pooled assets serve as collateral.

These restrictions were not breached in year ended 31 December 2020 or the year ended 31 December 2019.

## BORROWING

Borrowings may be employed at the level of the Group and at the level of any investee entity. Further, the Group may seek to securitise all or parts of its Credit Assets and may establish one or more SPVs in connection with any such securitisation.

The Group may borrow, whether directly or indirectly through a subsidiary or an SPV, up to a maximum of 100 per cent of Net Asset Value in aggregate. The limit is calculated at the time of draw down under any facility that the Group has entered into. The maximum borrowing limit includes investments made by the Group on a subordinated basis. The Group targets net borrowings in the range of 50 per cent to 75 per cent of Net Asset Value.

These restrictions were not breached in year ended 31 December 2020 or the year ended 31 December 2019.

In May 2020 and September 2020, the Company's main debt facility was refinanced. The new facility is £250m and has a maturity date of September 2023. During 2020 an increase was also agreed in the amortising term loan held in Sting Funding Limited from £62 million to £75 million and new funding of £35 million was agreed in a new SPV, Bud Funding Limited. Further detail on these facilities can be found in Note 19.

## HEDGING

Fluctuations in interest rates are influenced by factors outside the Group's control and can adversely affect the Group's results, operations and profitability in a number of ways. The Group invests in Credit Assets which may be subject to a fixed rate of interest, or a floating rate of interest (which may be linked to base rates or other benchmarks). The Group expects that its borrowings will be subject to a floating rate of interest. Any mismatches the Group has between the income generated by its Credit Assets, on the one hand, and the liabilities in respect of its borrowings, on the other hand, may be managed, in part, by matching any floating rate borrowings with investments in Credit Assets that are also subject to a floating rate of interest. The Group may use derivative instruments, including interest rate swaps, to reduce its exposure to fluctuations in interest rates.

To the extent that the Group does rely on derivative instruments to hedge interest rate risk, it will be subject to counterparty risk. Any failure by a hedging counterparty of the Group to discharge its obligations could have a material adverse effect on the Group's results, operations and/or financial condition.

The Manager monitors the interest rate risk position continuously and did not deem it appropriate to enter into any interest rate hedges for the period ending 31 December 2020 or the period ending 31 December 2019.

The Group intends to hedge currency exposure between Sterling and any other currency in which the Group's assets may be denominated, including US Dollars and Euros.

The Group will, to the extent it is able to do so on terms that the Investment Manager considers to be commercially acceptable, seek to arrange suitable hedging contracts, such as currency swap agreements, futures contracts, options and forward currency exchange and other derivative contracts (including, but not limited to, interest rate swaps and credit default swaps) in a timely manner and on terms acceptable to the Company. Details of hedging arrangements in place at 31 December 2020 and 2019 can be found below.

## CASH MANAGEMENT

Whilst it is intended that the Group will be close to fully invested in normal market conditions, the Group may invest surplus capital in cash deposits, cash equivalent instruments and fixed income instruments. There is no restriction on the amount of cash or cash equivalent instruments that the Group may hold and there may be times when it is appropriate for the Group to have a significant cash position instead of being fully or near fully invested. The Group increased its cash reserves over the period with £62.5 million of assets held in cash at 31 December 2020 (31 December 2019: £15.2 million).

## BUSINESS MODEL

The management of the Group's assets and the Group's administration has been outsourced to third-party service providers. The Board has oversight of the key elements of the Group's strategy, including the following:

- The Group's level of gearing. The Group has a maximum limit of 100 per cent of Net Asset Value in aggregate (calculated at the time of draw down under any facility that the Company has entered into) as detailed in the Company's prospectuses dated 18 December 2015, 25 May 2017 and 21 December 2018 (the "Prospectus");
- The Group's investment policy which determines the diversity of the Group's portfolio. The Board sets limits and restrictions with the aim of reducing risk and maximising returns;
- The appointment, amendment or removal of the Group's third-party service providers;
- An effective system of oversight over the Group's risk management and corporate governance; and
- Premium/discount control mechanism, such as share buyback programmes.

In order to effectively undertake its duties, the Board may seek expert legal advice. It can also call upon the advice of the company secretary. In 2015 the Board appointed Slaughter and May to provide ongoing legal services to the Group.

The Board have acted in a way that they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its shareholders as a whole, and in doing so have regard (amongst other matters) to:

- The likely consequences of any decision in the long-term;
- The impact of the Group's operations on the community and the environment;
- The desirability of the Group maintaining a reputation for high standards of business conduct; and
- The need to act fairly to avoid conflicts between the interests of the Directors and those of the Group.

Based on the Group's current position and the performance of the assets acquired the principal risks that it faces and their potential impact on its future development and prospects, the Directors have concluded that there is a reasonable expectation that the Group will be able to continue its business model and meet its liabilities as they fall due over the three-year period to the AGM in 2024. Please see the viability statement below for more detail.

## FUTURE DEVELOPMENTS

The Group's anticipated future developments and outlook are discussed in more detail in the Chairman's Statement above and the Investment Manager's Report above.

## PREMIUM/DISCOUNT MANAGEMENT

The Board closely monitors the premium or discount at which the Company's ordinary shares trade in relation to the Company's underlying Net Asset Value and acts accordingly. During the year under review the Company's ordinary shares traded at a discount to its underlying Net Asset Value.

The Board is of the view that an increase of the Company's ordinary shares in issue may provide benefits to shareholders, including a reduction in the Company's administrative expenses on a per share basis and increased liquidity in the Company's shares. At the Company's AGM in 2020, the Board was authorised to allot 7,449,984 ordinary shares, such authority lasting until the conclusion of the 2021 Annual General Meeting ("AGM") of the Company (or, if earlier, until close of business on 31 August 2021). Of this, up to 7,449,984 ordinary shares could be allotted on a non-pre-emptive basis, provided that the issue price is no lower than the latest published NAV per ordinary share. No shares were issued by the Company pursuant to these authorities.

The Board believes that it is in the shareholders' best interests to prevent the Company's shares trading at a discount to Net Asset Value because shareholders will be unable to realise the full value of their investments.

As a means of addressing the discount to Net Asset Value at which the Company's shares may, from time to time trade, shareholders have authorised the Company to buy back ordinary shares. Due to the discount the Directors were given the authority to purchase ordinary shares in the market, with 4,190,178 being purchased during the year under review at an average price of 821 pence. This, in addition to other factors, reduced the discount to 7.0 per cent at 31 December 2020, from a high of 28.1 per cent at 31 May 2020. The last published NAV statement at the date of signing these accounts was the NAV for 31 March 2021. At this point the share price was at a discount of 8.9 per cent to the NAV.

## DIRECTORS' DUTIES

### Section 172 of the Companies Act 2006

The Directors' overarching duty is to act in good faith and in a way that is the most likely to promote the success of the Group as set out in Section 172 of the Companies Act 2006.

The Board of Directors confirm that during the year under review, it has acted to promote the long-term success of the Company for the benefit of shareholders, whilst having due regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006, being:

- (a) the likely consequences of any decision in the long term
- (b) the interests of the Company's employees
- (c) the need to foster the Company's business relationships with suppliers, customers and others
- (d) the impact of the Company's operations on the community and the environment
- (e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
- (f) the need to act fairly between members of the Company.

Fulfilling this duty naturally supports the Group in achieving its Investment Objective and helps to ensure that all decisions are made in a responsible and sustainable way. In accordance with the requirements of the Companies (Miscellaneous Reporting) Regulations 2018, the Group explains how the Directors have discharged their duty under Section 172 below.

To ensure that the Directors are aware of, and understand, their duties they are provided with the pertinent information when they first join the Board as well as receive regular and ongoing updates and training on the relevant matters. They also have continued access to the advice and services of the company secretary, and when deemed necessary, the Directors can seek independent professional advice.

## **Decision-making**

The importance of the stakeholder considerations, in particular in the context of decision-making, is taken into account at every Board and Committee meeting. All discussions involve careful considerations of the longer-term consequences of any decisions and their implications for stakeholders. For example, in any strategic planning discussions, the Board will consider in detail the portfolio's performance and forecasts; asset allocation within the portfolio; as well as financial performance, liquidity and balance sheet management. In addition, the Board and the Investment Manager hold separate strategy focused sessions at least once per annum to consider and analyse the investment strategy.

We set out some of the principal decisions made by the Board in 2020, the ways in which stakeholder considerations were factored in and addressed during the decision making process:

---

### **Covid-19**

The Covid-19 pandemic has presented unprecedented challenges. A focal area for the Board over 2020 has been on engaging with stakeholders to ensure that these challenges have been managed as effectively as possible.

#### *How were stakeholders considered*

The Board met regularly with the Manager to discuss the evolving situation, the performance of the portfolio and the funding arrangements of the Group. The Board also received regular updates on regulatory changes, shareholder views and on how to manage potential issues for creditors.

#### *What was the outcome of such engagement*

The Board supported the actions taken by the Investment Manager to steer the portfolio through events of the year. The Board approved the new debt facilities throughout the year. These ensured that the Group could benefit from an increased funding capacity and more diversified funding providers than it did at the start of the year.

---

### **Dividend and Share Buyback Programme**

In light of the ongoing Covid-19 pandemic and reduction in the Company's share price, the Board reviewed its dividend policy and introduced a share buyback programme, commencing in August 2020.

#### *How were stakeholders considered*

The Board met with the Manager and the Company's brokers to review the financial outlook for the Group and to consider the range of actions that are possible to support the share price. The Board received updates on investor views based on equity and debt market opinions and investor engagements.

#### *What was the outcome of such engagement*

The Board considered the long-term interests of the Company and its shareholders and decided that these could be best served by reaffirming its dividend target and continuing to declare dividends at 20.00 pence per share each quarter.

Further, the Board decided to introduce a share buyback programme during the year. The programme enabled some shareholders to sell their shares at the same time as the remaining shareholders benefitting from NAV appreciation arising from repurchase of shares at a discount to NAV.

The combined effect of the above actions are considered to have supported the share price.

---

### **Operational Resilience**

The Covid-19 pandemic presented intense challenges to the operations of all companies. The Audit and Risk Committee maintained oversight of the operational risks and the corresponding business continuity plans put in place by the manager and third-party service providers.

#### *How were stakeholders considered*

The Board met with the Investment Manager and third-party service providers regularly throughout the year to ensure that all critical services continued to be delivered to a high standard.

#### *What was the outcome of such engagement*

The Company successfully managed through the crisis with all critical services maintained despite the work from home environment

---

---

## How we engage with stakeholders

The Board seeks to understand the needs and priorities of the Group's stakeholders and these are taken into account during all its discussions and as part of its decision-making. As an externally managed investment firm, the Group does not have any employees or customers, nor does it have a direct impact on the community or environment in the conventional sense. Further explanation on environmental, human rights, employee, social and community issues is set out above and below.

The description of the way the Group operates above explains the various stakeholders in the lending market involved in the investment strategy of the Group. The Board defines the Group's key stakeholders as individuals or groups who have an interest in, or are affected by, the activities of our business; accordingly, the Board has considered its key stakeholders to be as follows:

### Shareholders

Continued shareholder support and engagement are critical to existence of the business and the delivery of the long-term strategy of the business.

The Group's shareholders consist of institutional, professional and professionally advised and knowledgeable investors. The Group understands the need to effectively communicate with existing and potential shareholders, briefing them on strategic and financial progress and attaining feedback. The Board is committed to maintaining open channels of communication and to engage with shareholders in a manner which they find most meaningful, in order to gain an understanding of the views of shareholders. The Board engagement includes:

- **Annual General Meeting** – The Group welcomes engagement from shareholders at the AGM as it sees it as an important opportunity for all shareholders to engage directly with the Board. Due to the restrictions on public gatherings during the Covid-19 pandemic, the Board has decided to run the 2021 AGM without shareholders being able to attend in person. However, shareholders are strongly urged to provide voting instructions and it is also intended that shareholders will be given the opportunity to submit questions in advance of, or at the meeting, which will be held on 8 June 2021. Further details are included in the Notice of AGM which will be posted to shareholders along with this Annual Report.

The Board values any feedback and questions it may receive from shareholders ahead of and during the AGM and will take action or make changes, when and as appropriate. All directors attended the 2020 AGM, which was also held as a closed meeting due to the Covid-19 pandemic. All voting at general meetings of the Company is conducted by way of a poll. All shareholders have the opportunity to cast their votes in respect of proposed resolutions by proxy, either electronically or by post. Following the AGM, the voting results for each resolution are published and made available on the Company's website.

- **Publications** - The annual report and half-year results are made available on the Group's website and the annual report is circulated to shareholders. These reports provide shareholders with a clear understanding of the underlying portfolio and the financial position of the Group. The Group also publishes monthly the NAV per share and a monthly factsheet which are available on the website and the publication of which is announced via the London Stock Exchange. The monthly factsheet updates the market with underlying performance and commentary around this for that month. Feedback and/or questions the Group and the Investment Manager receive from the shareholders and analysts help the Board evolve its reporting;
- **Shareholder concerns** - In the event shareholders wish to raise issues or concerns with the Directors, they are welcome to do so at any time by writing to the Chairman at the registered office. Other members of the Board are also available to shareholders if they have concerns that have not been addressed through the normal channels. Feedback can also be gained via the Group's corporate brokers, which is communicated to the Board and Investment Manager; and
- **Working with external partners** – the Investment Manager and the Group's corporate brokers maintain an active dialogue with shareholders and potential investors at scheduled meetings or analyst briefings following financial results and provide the Board regular reports and feedback on key market issues and shareholder concerns. This includes market dynamics and corporate perception.

### The Investment Manager

The Investment Manager's performance is critical for the Group to successfully deliver its investment strategy and meet its objective to provide shareholders with an attractive level of dividend income and capital growth through investing in

primarily asset secured loans (“Credit Assets”) and selected equity investments that are aligned with the Group’s strategy and that present opportunities to enhance the Group’s returns from its investments (“Equity Assets”).

Maintaining a close and constructive working relationship with the Investment Manager is crucial as the Board and the Investment Manager both aim to continue to achieve consistent, long-term returns in line with its investment objective. Important components in the collaboration with the Investment Manager, representative of the Group’s culture are:

- Encouraging open discussion with the Investment Manager;
- Adopting a tone of constructive challenge when appropriate;
- Drawing on Board Members’ individual experience and knowledge to support the Investment Manager in its monitoring the portfolio of investments; and
- That the Board and the Investment Manager should act within the agreed investment restrictions and risk appetite statement and not seek to add further investment risk.

#### **The Company Secretary, the Administrator, the Registrar, the Depositary, The Broker**

In order to function as an investment trust and a constituent of the specialist fund segment on the London Stock Exchange, the Group relies on a diverse range of advisors for support with meeting all relevant obligations.

The Board maintains regular contact with its key external providers, primarily at the Board and committee meetings, as well through the Investment Manager from its own interactions with the external providers outside of the regular meeting cycle. In addition, the Management Engagement Committee is tasked with periodic reviews of the external service providers, assessing their performance, fees and continuing appointment at least annually to ensure that the key service providers continue to function at an acceptable level and are appropriately remunerated to deliver the expected level of service.

#### **Lenders**

Availability of funding and liquidity are crucial to the Group’s ability to take advantage of investment opportunities as they arise.

Therefore, the Group aims to demonstrate to lenders that it is a well-managed business, capable of consistently delivery long-term returns.

#### **Regulators**

The Group can only operate with the approval of its regulators who have a legitimate interest in how the Group operates in the market and treats its shareholders. We have an open and transparent relationship with our regulators and other government authorities including HMRC. We also take action to ensure compliance with our regulatory obligations as a premium-listed company, as set out elsewhere in this report.

The Group regularly considers how it meets various regulatory and statutory obligations and follows voluntary and best-practice guidance, and how any governance decisions it makes can have an impact on its stakeholders, both in the shorter and in the longer-term.

## **CORPORATE AND OPERATIONAL STRUCTURE**

### **Corporate Structure**

On 20 June 2019 the Group incorporated Sting Funding Limited (“Sting”), a limited Company incorporated under the law of England and Wales. The Group is considered to control Sting through holding 100 per cent of the issued shares. As a result, the financial statements for the year ended 31 December 2020 and 31 December 2019 are prepared on a consolidated basis.

Sting became active on 28 August 2019 when it drew down on a debt facility backed by commercial and second charge residential mortgages.

The Company also controls Bud Funding Limited (“Bud”), a limited company incorporated under the law of England and Wales. The Company is considered to control Bud through its exposure to the variable returns of the vehicle through holding of a junior note issued by it. Bud was incorporated on 2 November 2020.

### **Operational and portfolio management**

The Group has outsourced its operations and portfolio management to various service providers as detailed below:

- Pollen Street Capital Limited has been appointed as the Group’s investment manager and Alternative Investment Fund Manager (“AIFM”) for the purposes of the Alternative Investment Fund Managers Directive (“AIFMD”);

- Apex Fund Services (UK) Limited has been appointed to act as the Group's Administrator (the "Administrator");
- Link Company Matters Limited has been appointed to act as the Company's Secretary (the "Company Secretary");
- Indos Financial Limited has been appointed to act as the Group's Depository (the "Depository");
- Sparkasse Bank Malta plc has been appointed to act as the Group's Custodian (the "Custodian");
- Computershare Investor Services plc has been appointed as the Group's Registrar (the "Registrar"); and
- Liberum Capital Limited and Cenkos Securities plc have been appointed to act as the Group's joint corporate broker and financial adviser.
- Slaughters and May have been appointed to provide legal services to the Group.

### **Alternative Investment Fund Managers Directive ("AIFMD")**

In accordance with the AIFMD, the Group has appointed Pollen Street Capital Limited to act as the Group's AIFM for the purposes of the AIFMD. The AIFM ensures that the Group's assets are valued appropriately in accordance with the relevant regulations and guidance. The Group has appointed Indos Financial Limited as depository. In addition, the Group entered into an amended Depository Agreement enabling it to delegate certain custody functions as required by the AIFMD to Sparkasse Bank Malta plc (the "Custodian") on 17 November 2017.

### **Anti-bribery and corruption policy**

The Group has no employees or operations but uses the anti-bribery and corruption policy of the Investment Manager, ensuring compliance with all applicable anti-bribery and corruption laws and regulations, including the UK Bribery Act 2010.

### **Environment, human rights, employee, social and community issues**

The Group is required by law to provide details of environmental matters (including the impact of the Group's business on the environment), employee, human rights, social and community issues (including information about any policies it has in relation to these matters and the effectiveness of those policies). The Group does not have any employees and the Board is composed of independent non-executive Directors. As an investment trust, the Group does not have any direct impact on the environment. The Group aims to minimise any detrimental effect that its actions may have by adhering to applicable social legislation, and as a result does not maintain specific policies in relation to these matters.

The Group has no internal operations and therefore no greenhouse gas emissions to report nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, including those within its underlying investment portfolio. However, the Group believes that high standards of corporate social responsibility such as the recycling of paper waste will support its strategy and make good business sense.

In carrying out its investment activities and in relationships with suppliers, the Group aims to conduct itself responsibly, ethically and fairly.

The Investment Manager is committed to maintaining and enhancing its focus on the societal impact of its actions in a way that generates enduring long-term returns for investors and society. Further detail on this is included in the ESG section above.

### **Modern Slavery Act**

The Board gives due regard to human rights considerations, as defined under the European Convention on Human Rights and the UK Human Rights Act 1998.

We are aware of our responsibilities and obligations under the Modern Slavery Act and other relevant legislation relating to the detection and prevention of modern slavery and human trafficking. The Board is committed to implementing and enforcing effective systems and controls that seek to ensure that modern slavery is not taking place anywhere in its business or in its supply chains.

Further details of our compliance with the Modern Slavery Act can be found on our website.

## **BOARD DIVERSITY**

The Board recognises the benefits of greater diversity, including gender and ethnic diversity and remains committed to ensuring that the Directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives.

All appointments are made on merit against objective criteria identified with regard for the benefits of diversity on the Board, so as to achieve the overall balance of skills and experience that the Board judges that it needs in order to remain effective in meeting the challenges and opportunities that it anticipates.

During the year to 31 December 2020 the Board of Directors consisted of three non-executive Directors, none of whom were female. On 1 January 2021, Joanne Lake was appointed to the Board to bring the total to four non-executive Directors. During 2019, the Board adopted a Board Diversity and Inclusion policy and has established measurable objectives for achieving diversity on the Board and has undertaken to only engage executive search firms who have signed up to the voluntary Code of Conduct on gender diversity and best practice. With the appointment of Joanne, the Board is pleased to note that it has achieved its aim within the Board Diversity and Inclusion Policy to secure at least 25% female representation on the Board; the Board and the Nomination Committee will continue to review whether this 25% target remains appropriate or should be increased in going forward, along with other potential initiatives to further support and encourage diversity and inclusion.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Group is exposed to a number of potential risks and uncertainties. These risks could have a material impact on financial performance and position and could cause actual results to differ materially from expected and historical results.

The Group faces a number of risks both principal and emerging and as a result, the management of the risks we face is central to everything we do. These risks could have a material impact on financial performance and position and could cause actual results to differ materially from expected and historical results.

The Board has carried out a robust assessment of its principal and emerging risks and the controls to help mitigate the risks. It maintains a risk register that identifies the risks facing the Group and assesses each risk on a scale, classifying the probability of the risk and the potential impact that an occurrence of the risk could have on the Group. The risk register was last reviewed by the Risk Committee and Board on 21 April 2021. It was previously reviewed by the Audit and Risk Committee. The main changes to the assessment since the prior year are related to the potential impact of Covid-19 and the anticipated discontinuation of LIBOR. The presentation of the risks has also been changed to show investment related risks first, given these are generally considered to be more material. The day-to-day risk management functions of the Group have been delegated to the Investment Manager, which reports to the Risk Committee.

## INVESTMENT RISKS

### Achievement of the Investment Objective

There can be no assurance that the Investment Manager will continue to be successful in implementing the Company's investment objective.

### Mitigation

The Group's investment decisions are delegated to the Investment Manager. Performance of the Group against its investment objectives is closely monitored on an ongoing basis by the Investment Manager and the Board and is reviewed in detail at each Board meeting. The Board has set investment restrictions and guidelines which the Investment Manager monitors and reports on quarterly to the Board. In the event it is required, any action required to mitigate underperformance is taken as deemed appropriate by the Investment Manager. We expect the economic environment to create some compelling new opportunities for the Group which the Investment Manager will selectively review and deploy capital into.

### Fluctuations in the market price of Issue Shares

The market price of the Group's shares may fluctuate widely in response to different factors and there can be no assurance that the Group's shares will be repurchased by the Group even if they trade materially below their Net Asset Value. Similarly, the shares may trade at a premium to Net Asset Value whereby the shares can trade on the open market at a price that is higher than the value of the underlying assets. There can be no assurance, express or implied, that shareholders will receive back the amount of their investment in the Group's shares.

### Mitigation

The Investment Manager and the Board closely monitor the level of discount or premium at which the Company's shares trade on the open market. The Company may purchase the shares in the market with the intention of enhancing the Net Asset Value per ordinary share. However, there can be no assurance that any repurchases will take place or that any repurchases will have the effect of narrowing any discount to Net Asset Value at which the ordinary shares may trade. When the Company's shares trade at a premium the Company may issue shares to reduce the premium at which shares trade. As at 31 December 2020 the Company's shares were trading at a discount to Net Asset Value.

The last published NAV statement at the date of signing these accounts was the NAV for 31 March 2021. At this point the share price was at a discount of 8.9 per cent to the NAV.

## **Exposure to Credit Risk**

As a lender to small businesses and individuals, the Group is exposed to credit losses if customers or counterparties are unable to repay loans and outstanding interest and fees or through fraud. The Group is expected to invest a significant proportion of its assets in Credit Assets which, by their nature, are exposed to credit risk and may be impacted by adverse economic and market conditions, including through higher impairment charges, increased capital losses and reduced opportunities for the Group to invest in Credit Assets. Additionally, competition could serve to reduce yields and lower the volume of loans generated by the Group.

The outbreak of Covid-19 has caused major disruption across the globe. At the time of writing the portfolio has seen some impact in payment performance as customers requested and were granted forbearance plans. The majority of customers have now ended their forbearance plans and are returning to full payments across all sectors. Given the Group's strategy, its performance is linked to the health of the economy. The Group could experience further impairments and consequently reduced profits, particularly if economic expectations deteriorate further from the base case. The overall effect of this cannot be quantified reliably because of uncertainty surrounding a third wave, the impact of the various government initiatives and the behaviour of customers. The government has also launched a number of initiatives aimed at providing finance to SMEs.

### **Mitigation**

The Group will invest in a granular portfolio of assets, diversified by the number of borrowers, the type, and the credit risk of each borrower. Each loan is subject to, amongst other restrictions, a maximum single loan exposure limit. Additionally, the Group has made assumptions around loss and arrears rates within the portfolio in its financial projections. Further, the Investment Manager has established stringent underwriting criteria which includes credit referencing, income verification and affordability testing, identity verification and various forward-looking indicators of a borrower's likely financial strength. The Group also provides structured lending facilities to Corporate entities which can be larger value loans. Please see Note 15 to the financial statements for more details on Credit Risk.

Origination rates and performance of the underlying assets of the Group are closely monitored on an ongoing basis by the Investment Manager and the Board and are reviewed in detail at each Board meeting. The Manager has access to a diversified range of sources from which to select attractive assets. For structured lending facilities the Group undertakes a robust process. Facilities are secured and typically structured with minimum asset coverage ratios and covenants to provide early warning of credit deterioration and adequate asset cover in the event of stress. The Group operates within the Investment policy guidelines and lends on a secured basis against identifiable and accessible assets.

In relation to Covid-19 the impact is being managed closely by the Manager, through detailed ongoing monitoring and working with all platform partners to mitigate the impact on the portfolio.

## **Borrowing**

The Group may use borrowings in connection with its investment activities including, where the Investment Manager believes that it is in the interests of shareholders to do so, for the purposes of seeking to enhance investment returns. Such borrowings may subject the Group to interest rate risk and additional losses if the value of its investments fall. Whilst the use of borrowings should enhance the Net Asset Value of the Group's issued shares when the value of the Group's underlying assets is rising, it will have the opposite effect where the underlying asset value is falling. In addition, in the event that the Group's income falls for whatever reason, the use of borrowings will increase the impact of such a fall on the Group's return and accordingly will have an adverse effect on the Group's ability to pay dividends to shareholders.

### **Mitigation**

The Investment Manager and the Board closely monitors the level of gearing of the Group. The Group has a maximum limitation on borrowings of 100 per cent of Net Asset Value (calculated at the time of draw down) which the Investment Manager may affect at its discretion.

In September 2020 the Company's main topco debt facility was refinanced with a 3-year term revolving facility with a year of amortisation before final termination. There was also an increase in the Sting Funding Limited debt facility and the introduction of a new facility in the Bud Funding Limited SPV. Further detail on these facilities can be found in Note 19.

## **Interest Rate Risk**

The Group intends to invest in Credit Assets which may be subject to a fixed rate of interest, or a floating rate of interest (which may be linked to base rates or other benchmarks) and expects that its borrowings will be subject to a floating rate of interest. Any mismatches the Group has between the income generated by its Credit Assets, on the one hand, and the liabilities in respect of its borrowings, on the other hand, may subject the Group to interest rate risk.

### Mitigation

Interest rate risk exposures may be managed, in part, by matching any floating rate borrowings with investments in Credit Assets that are also subject to a floating rate of interest. The Group may use derivative instruments, including interest rate swaps, to reduce its exposure to fluctuations in interest rates, however some unmatched risk may remain.

Following the recommendations of the Financial Stability Board, a reform of the major interest rates benchmarks, including Interbank offered rate ("Ibors"), are underway across the world's largest financial markets. In some cases, the reform will include replacing interest rate benchmarks with alternative risk-free rates ("RFRs"). This replacement process is at different stages, and is progressing at different speeds, across several major currencies. For GBP LIBOR, the transition date is now set as being 31 December 2021 at the latest and SONIA as the preferred RFR. A credit adjustment spread is required to ensure that neither party is adversely impacted by the switch. The Investment Manager is actively managing the transition and determining the most appropriate transition process.

### Liquidity

The Group may invest in assets that are aligned with the Group's strategy and that present opportunities to enhance the Group's return on its investments. Such assets are likely to be illiquid and therefore may be more difficult to realise.

### Mitigation

The Group actively manages its liquidity position to ensure there is sufficient liquidity to meet liabilities as they fall due. Other mitigants include long term debt facilities with amortisation periods rather than bullet repayments; amortising assets that are highly cash generative; strong covenant packages that gives the Group ability to influence the borrower's behaviours in times of stress.

## OPERATIONAL RISKS

### Third Party Service Providers

The Group has no employees and the Directors have all been appointed on an independent non-executive basis. Whilst the Group has taken all reasonable steps to establish and maintain adequate procedures, systems and controls to enable it to comply with its obligations, the Group is reliant upon the performance of third-party service providers for its executive function. In particular, the Investment Manager, Depositary, Custodian, Administrator, Registrar and servicers, amongst others, will be performing services which are integral to the day-to-day operation of the Group.

As part of this, the operations of the third-party service providers are highly dependent on IT systems. Any critical system failure, prolonged loss of service availability or material breach of data security could cause serious damage to the third-party's ability to provide services to the Group, which could result in significant compensation costs or regulatory sanctions or a breach of applicable regulations. In particular, failures or breaches resulting in the loss or publication of confidential customer data could cause long-term damage to reputation and could affect regulatory approvals and competitive position which could undermine their ability to attract and retain customers.

The termination of service provision by any service provider, or failure by any service provider to carry out its obligations either by fraud or error to the Group, or to carry out its obligations to the Group in accordance with the terms of its appointment, could have a material adverse effect on the Group's operations and its ability to meet its investment objective.

### Mitigation

The Group has appointed third party service providers who are experienced in their field and have a reputation for high standards of business conduct. Further, day-to-day oversight of third-party service providers is exercised by the Investment Manager and reported to the Board on a quarterly basis. As appropriate to the function being undertaken, each of the service providers is subject to regular performance and compliance monitoring. The performance of the Investment Manager in its duties to the Group is subject to ongoing review by the Board on a quarterly basis as well as formal annual review by the Group's Management Engagement Committee.

The appointment of each service provider is governed by agreements which contain the ability to terminate each of these counterparties with limited notice should they continually or materially breach any of their obligations to the Group.

As part of the response to Covid-19 all outsourced third party service providers have successfully implemented business continuity processes such as working from home. This has meant that the service levels received by the Group have been maintained.

## Reliance on key individuals

The Group will rely on key individuals at the Investment Manager to identify and select investment opportunities and to manage the day-to-day affairs of the Group. There can be no assurance as to the continued service of these key individuals at the Investment Manager. The departure of key individuals from the Investment Manager without adequate replacement may have a material adverse effect on the Group's business prospects and results of operations. Accordingly, the ability of the Group to achieve its investment objective depends heavily on the experience of the Investment Manager's team, and more generally on the ability of the Investment Manager to attract and retain suitable staff.

### Mitigation

The interests of the Investment Manager are closely aligned with the performance of the Group through the management and performance fee structures in place and direct investment by certain key individuals of the Investment Manager. Furthermore, investment decisions are made by a team of professionals, mitigating the impact loss of any single key professional within the Investment Manager's organisation. The performance of the Investment Manager in its duties to the Group is subject to ongoing review by the Board on a quarterly basis as well as formal annual review by the Group's Management Engagement Committee.

## REGULATORY RISKS

### Tax

Any changes in the Group's tax status or in taxation legislation could affect the Group's ability to provide returns to shareholders and affect the tax treatment for shareholders of their investments in the Group.

### Mitigation

The Group intends at all times to conduct its affairs so as to enable it to qualify as an investment trust for the purposes of Section 1158 of the Corporation Tax Act 2010. Both the Board and the Investment Manager are aware of the requirements which are to be fulfilled in any accounting period for the Group to maintain its investment trust status. The conditions required to satisfy the investment trust criteria are monitored by the Investment Manager and performance of the same shall be reported to the Board on a quarterly basis. Where new SPVs are created or acquired these are done in such a way to not impact the potential tax liability of the Group.

### Breach of applicable legislative obligations

The Group and its third-party service providers are subject to various legislative and regulatory regimes, including, but not limited to, the Consumer Credit Act General Data Protection Regulation and the Data Protection Act 2018. Any breach of applicable legislative and/or regulatory obligations could have a negative impact on the Group and impact returns to shareholders.

### Mitigation

The Group engages only with third party service providers which hold the appropriate regulatory approvals for the function they are to perform and can demonstrate that they can adhere to the regulatory standards required of them. Each appointment is governed by agreements which contain the ability for the Group to terminate the arrangements with each of these counterparties with limited notice should such counterparty continually or materially breach any of their legislative obligations, or their obligations to the Group more broadly. Additionally, each of the counterparties is subject to regular performance and compliance monitoring by the Investment Manager, as appropriate to their function, to ensure that they are acting in accordance with applicable regulations and are aware of any upcoming regulatory changes which may affect the Group. Performance of third-party service providers is reported to the Board on a quarterly basis, whilst the performance of the Investment Manager in its duties to the Group is subject to ongoing review by the Board on a quarterly basis as well as formal annual review by the Group's Management Engagement Committee.

## EMERGING RISKS

The Group monitors its emerging risks, supporting organisational readiness for external volatility. This incorporates input and insight from both a top-down and bottom-up perspective:

- Top-down: Emerging risks identified by directors at a group level via the Risk Committee and the Board.
- Bottom-up: Emerging risks identified at a business level and escalated, where appropriate by the Investment Manager, via risk updates into the Risk Committee and the Board.

Emerging risks are monitored by the Risk Committee on an ongoing basis, with agreed actions tracked to ensure the Group's preparedness should an emerging risk crystallise.

Over the period, the committee has focused on the potential impact of Covid-19, risks associated with ESG, operational resilience and cyber risks. All these risks are considered to be within the Group's risk appetite, however the Group is monitoring the situation carefully as it evolves. The Group's business model aims to ensure that it is able to continue to trade and support its clients in all economic conditions.

## Key Performance Indicators

The Board monitors success in implementing the Group's strategy against a range of key performance indicators (KPIs), which are viewed as significant measures of success over the longer term. Although performance relative to the KPIs is also monitored over shorter periods, it is success over the long-term that is viewed as more important, given the inherent volatility of short-term investment returns. The principal KPIs are set out below with commentary included throughout the Strategic Report:

	31 December 2020	31 December 2019
<b>NET ASSET VALUE</b>		
NET ASSET VALUE (CUM INCOME) (£'000) <sup>(1)</sup>	357,232	400,361
MARKET CAPITALISATION (£'000) <sup>(2) (3)</sup>	332,323	383,650
<b>PER SHARE METRICS</b>		
SHARE PRICE (AT CLOSE) <sup>(4)</sup>	942.5p	972.5p
NAV PER SHARE (CUM INCOME) <sup>(1)</sup>	1,013.1p	1,014.9p
SHARES IN ISSUE	35,259,741	39,449,919
<b>PERFORMANCE INDICATORS AND KEY RATIOS</b>		
PREMIUM / (DISCOUNT) <sup>(2) (5)</sup>	(7.0)%	(4.2)%
ANNUAL NAV RETURN <sup>(2) (6)</sup>	7.7%	7.8%
PROFIT (£'000) <sup>(7)</sup>	20,701	31,211
ITD TOTAL NAV RETURN <sup>(2) (8) (9)</sup>	41.1%	33.2%
DEBT TO EQUITY <sup>(2) (10)</sup>	76.6%	51.7%
NET DEBT TO EQUITY <sup>(2) (11)</sup>	59.1%	47.8%
DIVIDEND RETURN <sup>(2) (12)</sup>	8.0%	8.0%
ONGOING CHARGES <sup>(2) (13)</sup>	2.0%	1.8%

(1) NET ASSET VALUE (CUM INCOME): will include the value of investments, other assets and cash, including current year revenue, less liabilities. NAV per share is calculated by dividing the calculated figure by the total number of shares.

(2) ALTERNATIVE PERFORMANCE MEASURES: Alternative Performance Measures ("APMs") are used to improve the comparability of information between reporting periods, either by adjusting for uncontrollable or one-off factors which impact upon IFRS measures or, by aggregating measures, to aid the user understand the activity taking place. The Strategic Report includes both statutory and adjusted measures, the latter of which, reflects the underlying performance of the business and provides a more meaningful comparison of how the business is managed. APMs are not considered to be a substitute for IFRS measures but provide additional insight on the performance of the business. Reconciliations to amounts appearing in the financial statements can be found in section 5.

(3) MARKET CAPITALISATION: the closing mid-market share price multiplied by the number of shares outstanding at month end.

(4) SHARE PRICE (AT CLOSE): closing mid-market share price at month end (excluding dividends reinvested).

(5) PREMIUM / (DISCOUNT): the amount by which the price per share of an investment trust is either higher (at a premium) or lower (at a discount) than the net asset value per share (cum income), expressed as a percentage of the net asset value per share.

(6) ANNUAL NAV RETURN: is calculated as Net Asset Value (Cum Income) at the end of the year, plus dividends declared during the year, divided by NAV (Cum Income) calculated on a per share basis at the start of the year.

(7) PROFIT: is calculated as profit after taxation

(8) ITD: inception to date – excludes issue costs.

(9) TOTAL NAV RETURN: is calculated as Net Asset Value (Cum Income) at the end of the year, plus dividends declared during the year, divided by NAV (Cum Income) calculated on a per share basis at the start of the year. There was a 1.06 per cent uplift on the inception to date total NAV per share return due to the effect of shares being issued at a premium during May-17 capital raise and 0.73 per cent in relation to the April-18 capital raise.

(10) DEBT TO EQUITY: is calculated as the Group's interest bearing debt divided by the net asset value, expressed as a percentage.

(11) NET DEBT TO EQUITY: is calculated as the Group's interest bearing debt, less cash and cash equivalents divided by the net asset value, expressed as a percentage..

(12) DIVIDEND RETURN: is calculated as the total declared dividends for the period divided by IPO issue price.

(13) ONGOING CHARGES RATIO: The Annualised Ongoing Charge is calculated using the Association of Investment Companies recommended methodology. It is calculated as a percentage of annualised ongoing charge over average reported Net Asset Value. Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the costs of acquisition/disposal of investments, financing charges and gains/losses arising on investments. Ongoing charges are based on costs incurred in the year as being the best estimate of future costs. The AIC excludes performance fees from the Ongoing Charges calculation

## APPROVAL

The Strategic Report was approved by the Board of Directors on 29 April 2021 and signed on its behalf by:

**Robert Sharpe**

Chairman

29 April 2021

## Directors' Report

### Board of Directors

#### ROBERT SHARPE <sup>(1)</sup>

Chairman of the Board, the Nomination Committee and the Management Evaluation Committee.

### Member of the Audit Committee, the Risk Committee and the Remuneration Committee.

Robert has over 45 years' experience in retail banking. He is currently chairman at MetroBank plc, Hampshire Trust Bank plc and Aspinall Financial Services Limited. He has had an extensive number of appointments both in the UK and the Middle East including non-executive Director ("NED") at Aldermore Bank plc, George Wimpy plc, Barclays Bank UK Retirement Fund, Vaultex Limited, LSL Properties plc, RIAS plc and several independent NED roles at banks in Qatar, UAE, Oman and Turkey. Robert was previously chief executive officer at West Bromwich Building Society, a role he took to chart and implement its rescue plan. Prior to this, he was chief executive officer at Portman Building Society and Bank of Ireland in the UK.

### JIM COYLE <sup>(1)</sup>

Senior Independent Director to the Board.

Chairman of the Audit Committee.

Member of the Risk Committee, the Nomination Committee, the Remuneration Committee and the Management Evaluation Committee.

Jim is a non-executive Director, chair of the Audit Committee and member of the Risk Committee at HSBC UK Bank plc, chairman of HSBC Trust Company (UK) Ltd and Marks & Spencer Unit Trust Management Limited. He is also a non-executive Director and Chairman of the audit and risk committee at Scottish Water, non-executive director at Marks & Spencer Financial Services plc and an independent non-executive member of Deloitte UK Oversight Board. He was previously Chairman at Worldfirst, non-executive director at the Scottish Building Society, non-executive director and chairman of the Audit Committee of Vocalink plc, and group financial controller at Lloyds Banking Group, having earlier held a role as divisional finance director, Group Operations. Prior to this, Jim was group chief accountant for the Bank of Scotland, having joined the bank in 1991. He qualified as a Chartered Accountant with KPMG before spending 10 years in the oil industry, holding senior positions with BP. Jim is a Fellow of the Chartered Institute of Bankers in Scotland, a former member of the Council of the Institute of Chartered Accountants of Scotland and the Financial Reporting Council Committees.

### RICHARD ROWNEY <sup>(2)</sup>

Chairman of the Risk Committee.

Member of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Management Evaluation Committee.

Richard is currently Group CEO of James Hay Partnership a leading retirement and wealth management specialist managing over £27bn of assets. backed by Private Equity specialist Epiris JHP is a consolidator in the platform market and in 2021 announced the acquisition of Nucleus creating the largest independent retirement specialist in the UK. Prior to this Richard was group chief executive of LV= a leading financial services provider and a mutual where he worked as an executive member of the board for 13 years. Richard left LV at the end of 2019 following the sale of the General Insurance business to the Allianz Group. Richard has led the business to win the Moneywise Most Trusted Life Insurer award as well as YouGov's UK's Most Recommended Insurer. Prior to his position as chief executive officer he had been Managing Director of the group's Life & Pensions business which he successfully turned into one of the UK's leading Protection and Retirement specialist companies. Prior to his time at LV= Richard held various chief operating officer and risk roles across Barclays corporate and retail banking. Richard holds a first-class degree in Geography from the University of Leeds, an MBA from Henley Business School and has completed the Harvard Management Programme in 2006.

### JOANNE LAKE <sup>(3)</sup>

Chairman of the Remuneration Committee.

Member of the Audit Committee, the Risk Committee, the Nomination Committee and the Management Evaluation Committee.

Joanne has over 30 years' experience in financial and professional services. She is currently independent non-executive chairman of Mattioli Woods Plc, the AIM-listed wealth management and employee benefits specialist, independent non-executive deputy chairman of Main Market-listed land promotion, property development and investment, and construction group, Henry Boot PLC, and is an independent non-executive director at AIM-listed Gateley Holdings plc, the legal and professional services group, and Morses Club Plc, a leading provider of non-standard finance. Joanne is a Chartered Accountant and has previously held senior roles at UK investment banks including Panmure Gordon, Evolution Securities and Williams de Broe and in audit and business advisory services with PwC. Joanne is a Fellow of the ICAEW and a member of its Corporate Finance Faculty and is a Fellow of the Chartered Institute for Securities and Investment.

<sup>(1)</sup> Appointed 14 December 2015

<sup>(2)</sup> Appointed 1 July 2019

<sup>(3)</sup> Appointed 1 January 2021

## Statutory Information

The Directors of Honeycomb Investment Trust plc (Registered: 09899024) present their report and audited financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2020. The shares are listed on the Main Market of the London Stock Exchange.

### BOARD MEMBERS, AND DIRECTORS' AND OFFICERS' INSURANCE

The names and biographical details of the Board members who served on the Board as at the year-end can be found above

During the year under review the Group maintained directors' and officers' liability insurance for its Directors and officers as permitted by section 233 of the Companies Act 2006. The directors' and officers' liability insurance has been renewed and will remain in place under the current renewal until February 2022.

### STATUS OF THE COMPANY

The Company is an investment company within the meaning of section 833 of the Companies Act 2006.

The Company operates as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) (Tax) Regulations 2011. HM Revenue & Customs approved the Company as an investment trust upon its listing on 23 December 2015. In the opinion of the Directors, the Company has conducted its affairs so that it is able to maintain its status as an investment trust.

The Company is an externally managed closed-ended investment company with an unlimited life and has no employees (2019: no employees).

The Company was incorporated in England and Wales on 2 December 2015 and started trading on 23 December 2015, immediately upon the Company's listing.

### INTERNAL CONTROLS AND RISK MANAGEMENT

The Board has established an ongoing process for identifying, evaluating and managing risk on behalf of the Group. The Board has carried out a robust assessment of its principal and emerging risks and the controls to help mitigate these. Further details of the Group's principal risks and uncertainties can be found in the Strategic Report above and details of the Group's internal controls can be found below. Details of the Group's hedging policies are set out in the Strategic Report above.

### SHARE CAPITAL – VOTING AND DIVIDEND

As at 31 December 2020, the Company had 39,449,919 ordinary shares in issue, of which 4,190,178 Ordinary Shares were held by the Company as treasury shares. (31 December 2019: 39,449,919 ordinary shares in issue, with no shares held in treasury). As at the date of this report, the Company had 39,449,919 ordinary shares in issue, of which 4,190,178 ordinary shares are held in Treasury. As at the date of this report, the total number of voting rights in the Company is 35,259,741.

On 26 June 2020, at the Company's last Annual General Meeting ("AGM"), the Board was granted authority to allot the Company's ordinary shares of £0.01 each or grant rights to subscribe for, or convert any security into ordinary shares in the Company up to an aggregate nominal amount of £37,249.92 representing 3,724,992 ordinary shares. The authority will expire (unless previously renewed, varied or revoked) on the conclusion of the 2021 AGM of the Company (or, if earlier, at the close of business on 31 August 2021).

The ordinary shares carry the right to receive dividends and have one voting right per ordinary share. There are no shares which carry specific rights with regard to the control of the Company. The shares are freely transferable. There are no restrictions or agreements between shareholders on the voting rights of any of the ordinary shares or the transfer of shares.

The Company does not have a fixed life, however, pursuant to the articles of association, a continuation vote was scheduled to be held at the AGM of the Company in 2020 and, if passed, every five years thereafter. However, in order to provide greater certainty as to the Company's investment period to secure optimal terms in a replacement leverage facility, the Directors convened a General Meeting on 16 December 2019 at which a resolution for the continuation of the Company was proposed and passed by Shareholders.

At the AGM held on 26 June 2020, the Directors were granted the authority to purchase in the market up to 5,583,762 ordinary shares, such authority expiring at the conclusion of the 2021 AGM of the Company (or, if earlier, until close of business on 31 August 2021). The Company intends to seek approval from the shareholders, by special resolution, to renew this authority at the next AGM.

During the reporting period, and further to the authority granted by shareholders at the 2020 AGM, the Company commenced a share buyback programme on 10 August 2020. All ordinary shares purchased by the Company pursuant to the buyback programme were held in treasury.

In addition, where in a financial period of the Company ending on or after 31 December 2016 the ordinary shares have traded, on average over that financial period, at a discount in excess of 10 per cent to Net Asset Value per ordinary share, the Company will be required to propose a special resolution at the next AGM for the discontinuation of the business of the Company in its present form. If such a discontinuation resolution is passed, proposals will be put forward by the Directors to shareholders within four months to address the trading discount to Net Asset Value per ordinary share (which may include proposals for the reorganisation, reconstruction or winding up of the Company). This requirement has been triggered for 2020 and a discontinuation vote will be held at the 2021 AGM. The vote is a special resolution and requires 75% of the per cent of the voting members to be in favour of the discontinuation.

On a winding up or a return of capital by the Company, the ordinary shareholders are entitled to the capital of the Company.

The Company's policy is to pay dividends on a quarterly basis, as set out in the Company's prospectuses dated 18 December 2015, 25 May 2017 and 21 December 2018 (the "Prospectus"). As such, the dividends are declared as interim dividends rather than final dividends. The dividends paid or payable in respect of the year ended 31 December 2020 are set out Note 10 to the financial statements. A reconciliation of movements in reserves is presented in the Statement of Changes in Shareholders' Funds in the financial statements. The Company may make distributions from the Revenue Reserve, the Special Distributable Reserve or from realised capital gains. There were no unrealised gains in the year.

## SUBSTANTIAL SHARE INTERESTS

As at 31 December 2020, the Company had been notified in accordance with Disclosure Guidance and Transparency Rule 5 of the following interests in the voting rights attaching to the Company's issued share capital:

Holder	Ordinary shares	Percentage of total voting rights
Quilter Investors Limited	10,160,645	28.81%
C C Beekeeper Limited	4,012,006	11.38%
Weiss Asset Management LP	3,000,000	8.05%
The Phoenix Holdings Limited	2,935,306	7.88%
The Thameside 1979 Settlement	2,467,000	6.97%
Close Asset Management Limited	2,003,000	5.38%
M&G Investment Management Limited	2,000,000	5.36%
Aberdeen Asset Management PLC	1,782,049	5.05%

## INDEPENDENT AUDITORS

The Company's independent auditors, PricewaterhouseCoopers LLP ("PwC"), were re-appointed at the Company's AGM in 2020 and have expressed willingness to continue to act as the Group's auditors for the forthcoming financial year.

As detailed in the Audit and Risk Committee report for 2020, Richard McGuire may not be re-appointed as audit partner given he has served for five years. The Audit Committee has liaised with PwC and intends to appoint Claire Sandford

as the replacement audit partner. The Audit Committee is satisfied that appropriate arrangements are in place to secure an orderly and effective change of audit partner over the course of this financial year.

The Audit Committee has carefully considered the auditors' appointment, as required in accordance with its Terms of Reference, and, having regard to its effectiveness and the services it has provided the Group during the year under review, has recommended to the Board that the independent auditors be re-appointed at the forthcoming 2021 AGM. At the 2021 AGM, resolutions are therefore to be proposed for the re-appointment of the independent auditors and to authorise the Directors to agree its remuneration for the forthcoming financial year. In reaching its recommendation, the Audit Committee considered the points detailed below in the Audit and Risk Committee's report.

## AUDIT INFORMATION

As required by section 418 of the Companies Act 2006, the Directors who held office at the date of this report each confirm that, so far as they are aware, there is no relevant audit information of which the Group's auditor are unaware and each Director has taken all the steps required of a Director to make themselves aware of any relevant audit information and to establish that the Group's auditor are aware of that information.

## ARTICLES OF ASSOCIATION

Any amendments to the Company's Articles of Association must be made by special resolution.

## GOING CONCERN

The Directors have reviewed the financial projections of the Group from the date of this report, which shows that the Group will be able to generate sufficient cash flows in order to meet its liabilities as they fall due. These financial projections have been performed under various origination volumes and stressed scenarios and in all cases the Group is able to meet its liabilities as they fall due. The stressed scenarios considered included halting future originations, late repayments of the largest structured facilities and individual exposures experiencing ongoing performance at the worst monthly impact experienced throughout 2020; which incorporated one-off macro-economic charges for Covid-19. As part of these projections the Directors have also reviewed any financial and non-financial covenants in place under all debt facilities in place with no breaches anticipated, even in the most stressed scenario.

The Group has performed these prudent financial scenarios to ensure that it has sufficient cash resources to weather any remaining impact of Covid-19, as it continues to cause disruption across the globe. The conclusion of the stress testing is that the business has more than adequate cash resources to meet its liabilities as they fall due.

Although there is a requirement to put a special resolution for the discontinuation of the Company at the 2021 AGM, based on the current position, performance and prospects of the Company the Directors have no reason to believe that shareholders will vote for discontinuation. As a special resolution, 75% of shareholders would be required to vote for discontinuation and the Directors do not believe this high threshold will be met. The Directors also note that, even if there was to be a vote for discontinuation at the 2021 AGM, the Company would be likely to continue to operate for a period thereafter, due to the Company's investments not comprising readily realisable securities. Accordingly, the Directors are satisfied that the going concern basis remains appropriate for the preparation of the financial statements. The Group also has detailed policies and processes for managing the risk, set out in the Strategic Report above.

## VIABILITY STATEMENT

In accordance with provision 31 of the UK Corporate Governance Code, published by the Financial Reporting Council in 2018 (the "Code"), the Directors have assessed the prospects of the Group over the three-year period to the AGM in 2024. The Board believes this period to be appropriate taking into account the current trading position and the potential impact of the principal risks that could affect the viability of the Group.

The Board believes this period to be appropriate taking into account the current trading position and the potential impact of the principal risks that could affect the viability of the Company. At the year-end, the Group had cash balances of £62.5 million, and has £41.3 million excess of current receivables over current liabilities. The Company also has £315.9 million excess of non-current assets to non-current liabilities. There are therefore limited risks to the viability of the Company.

To prepare the viability statement the Board have considered the prospects of the Company in light of its current position and have considered each of the Company's principal risks and uncertainties and mitigating factors are detailed above. Taking the current performance as a base, the projection considers the Company's income, underlying Net Asset Value and the cash flows over the three-year period selected. The projection is not a business plan in itself, but rather is a prudent view of how the Company may evolve, based principally upon its growth to date, in order to demonstrate its viability. Analysis to assess viability has focused on the risks in delivery of the growth of the business and a series of projections have been considered changing origination volumes and the performance of the assets acquired.

The experience of Covid-19 over 2020 has been considered in these projections, with analysis of the impact for the Group if any credit deterioration felt in 2020 were to continue. In this case the Group continues to be viable, though with the prospect of the continued vaccine rollout in the UK, and around the globe, the Directors expect the actual impact to be below the levels projected. The ongoing uncertainty around the consequences of Brexit are not expected to have a significant effect on the Company, with a largely UK focus and strong collateralisation in the predominantly structurally secured portfolio minimising any impact.

All the analysis indicates that due to the stability and cash generating nature of the portfolios and structured agreements, as well as the debt facilities in place, the Company would be able to withstand the impact of the risks identified. Based on the robust assessment of the principal risks, prospects and viability of the Company, the Board confirms that they have reasonable expectation that the Company will be able to continue operation and meet its liabilities as they fall due over the three-year period to the AGM in 2024. The Board also continuously monitors the financial performance of the Company against key financial ratios ensuring a strict discipline in the financial management of the business.

## MANAGEMENT AND ADMINISTRATION

### Administrator

The Group's Administrator is Apex Fund Services (UK) Ltd (the "Administrator"), a company authorised and regulated by the Financial Conduct Authority ("FCA"). The Administrator provides the day-to-day administration of the Group. The Administrator is responsible for the Group's general administrative functions, such as the calculation of the Net Asset Value and maintenance of the Group's accounting records.

Under the terms of the administration agreement, the Administrator charges a fee for its fund administration services equal to the greater of: (i) £5,305 per month (increased by 3 per cent on 1 January in each year); and (ii) an amount equal to the sum of 1/12 of 0.06 per cent of the portion of Net Asset Value up to £150 million, and 1/12 of 0.05 per cent of the excess of Net Asset Value above £150 million. The monthly fee is then reduced by £2,083.33 to reflect the fact that the Administrator no longer provides company secretarial services to the Group. The Administrator is also entitled to reimbursement of all reasonable out of pocket expenses incurred by it in connection with the performance of its duties. The administration agreement can be terminated by either party by providing 90 days' written notice.

### Company Secretary

Link Company Matters Limited has been appointed as the company secretary of the Group. The Company Secretary was appointed in September 2018. The Company Secretary undertakes the general secretarial functions required by the Companies Act and is responsible for the maintenance of specified statutory registers of the Company. The Company Secretary is entitled to a general annual fee of £56,146 (all fees excluding VAT). The Company Secretary shall also be entitled to reimbursement of reasonable out of pocket expenses incurred in connection with the performance of its duties (without prior consent of the Company, but such expenses are subject to limits).

### Registrar

Computershare Investor Services plc has been appointed as the Company's registrar to provide share registration services. Under the terms of the Registrar Agreement, the Registrar is entitled to an annual register maintenance fee from the Company equal to £1.30 per Shareholder per annum or part thereof, subject to a minimum of £3,800 per annum and a potential annual fee increase capped by inflation.

Other activity beyond the agreed services will be charged for in accordance with the Registrar's normal tariff as published from time to time.

### Investment Manager

The Investment Manager, a UK-based company authorised and regulated by the FCA, has been appointed the Group's investment manager and Alternative Investment Fund Manager ("AIFM") for the purposes of the Alternative Investment Fund Managers Directive ("AIFMD"). The Investment Manager is responsible for the discretionary management of the Group's assets and ensures that these are valued appropriately in accordance with the relevant regulations and guidance. Under the terms of the management agreement, the Investment Manager is entitled to a management fee and a performance fee together with reimbursement of reasonable expenses incurred by it in the performance of its duties. From the period from first admission, the management fee payable was based on 1.0 per cent of the Gross Asset Value (which includes only value attributable to credit assets and equity assets held by the Group for investment purposes). Once more than 80.0 per cent of the listing proceeds of any placing were invested the management fee payable was based on 1.0 per cent of the Gross Assets. Further details on the management fee and the performance fee can be found in Note 6 to the financial statements. The management agreement can be terminated by either party providing twelve months' written notice.

For as long as the Origination Partner is part of the same group as the Investment Manager the fees payable to the Origination Partner, which are calculated as a percentage of the purchase price for each Credit Asset acquired by the Group from the Origination Partner, shall be deducted from the management fee payable to the Investment Manager. There was £nil payable to the Origination Partner at 31 December 2020 and 2019.

### **Depository**

The Group's depository is Indos Financial Limited (the "Depository"), a company authorised and regulated by the FCA. Under the terms of the depository services agreement the Depository is entitled to a periodic fee calculated as follows:

- (A) Where NAV is less than or equal to £200 million, 0.02 per cent of NAV per annum, subject to a minimum monthly fee of £2,500; and
- (B) Where NAV is greater than £200 million, 0.02 per cent of NAV per annum in respect of the first £200 million of NAV and:
  - i. 0.0175 per cent per annum of that part of NAV which is in excess of £200 million but less than or equal to £400 million; plus
  - ii. 0.015 per cent per annum of that part of NAV which is in excess of £400 million.

The Depository invoices the Group monthly in arrears in respect of the periodic fee (together, if applicable, with any VAT thereon), which shall be payable by the Group within 30 days of the relevant invoice.

The Depository is entitled to charge an additional fee where the Group undergoes a lifecycle event (e.g. a reorganisation or a distribution) which entails additional work for the Depository. Such a fee is agreed with the Group on a case by case basis.

All charges may be subject to change from time to time, with the agreement of the Depository and the Group. All charges are exclusive of VAT, if applicable.

The Depository is entitled to be reimbursed for certain expenses properly incurred in performing or arranging for the performance of functions conferred upon it under the agreement.

The Group may terminate the depository services agreement for convenience on nine months' written notice. If the Depository wishes to retire and stop providing the services under the agreement, it must give the Group not less than nine months' written notice of its wish to do so. To the extent that the Group is required to have a depository under applicable law, the Depository may not retire until a successor is appointed. The depository agreement may be terminated immediately by either the Group or the Depository on the occurrence of certain events, including: (i) if the other party has committed a material and continuing breach of the terms of the agreement; or (ii) in the case of the other's insolvency.

### **Custodian**

The Depository has delegated its obligations in respect of the safe keeping of the Group's financial instruments to Sparkasse Bank Malta plc. The Depository is primarily liable to the Group and investors for losses of financial instruments held by the by the Custodian, however, the Group and Investment Manager have permitted the transfer of that obligation to the Custodian in compliance with Articles 21(13) or 21(14) of the AIFMD. The Depository has transferred such obligation and therefore the Custodian, and not the Depository, will be liable to the Group for a loss of financial instruments held in custody, but the Depository must take reasonable steps to pursue and enforce any associated claim on behalf of the Group. No amount is payable by the Group to the Custodian.

### **Corporate broker and financial adviser**

Liberum Capital Limited ("Liberum") and Cenkos Securities plc, companies authorised and regulated in the United Kingdom by the FCA, have been appointed as the Group's joint corporate broker and financial advisers.

## **CHANGE OF CONTROL**

There are no agreements to which the Company is party that might be affected by a change of control of the Company except for the agreement in relation to the Company's debt facility. Pursuant to the terms of that agreement, on a change of control of the Company, the Company shall promptly notify the lender. The lender is not obliged to fund a utilisation except in relation to a rollover loan and if negotiations to continue the facility are not concluded within 30 days, the liability may be repayable.

## **SUBSEQUENT EVENTS**

On 25 March 2021, a dividend of 20.0 pence per ordinary share was paid.

On 29 April 2021, a dividend of 20.0 pence per ordinary share was approved for payment on 25 June 2021.

## DONATIONS

The Group made no political or charitable donations during the year under review to organisations either within or outside the EU (2019: None).

## GREENHOUSE GAS EMISSIONS

The Group has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, including those within its underlying investment portfolio.

## FUTURE DEVELOPMENTS

Indications of likely future developments in the business are discussed in more detail in the Chairman's Statement above and the Investment Manager's Report above

## REGULATORY DISCLOSURES

The disclosures below are made in compliance with the requirements of Listing Rule 9.8.4.

Listing Rule	
9.8.4 (1) – capitalised interest	The Group has not capitalised any interest in the year under review.
9.8.4(2) – unaudited financial information	The Company publishes a monthly NAV statement. The Company also published its interim report and unaudited financial statements for the period from 1 January 2020 to 30 June 2020.
9.8.4 (4) – incentive schemes	The Group has no incentive schemes in operation.
9.8.4 (5) and (6) - waiver	No Director of the Company has waived or agreed to waive any current or future emoluments from the Group.
9.8.4 (7), (8) and (9)	During the year under review, Honeycomb Investment Trust plc did not issue shares.
9.8.4 (8) and 9.8.4 (9) – relate to companies that are part of a group of companies	Not applicable
9.8.4 (10) – contract of significance	During the year under review, there were no contracts of significance subsisting to which the Group is a party and in which a Director of the Group is or was materially interested or between the Group and a controlling shareholder.
9.8.4 (11)	The Company is not party to any contracts for the provision of services to the Company by a controlling shareholder.
9.8.4 (12) and (13) – waiving dividends	During the year under review, there were no arrangements under which a shareholder has waived or agreed to waive any dividends or future dividends.
9.8.14	Not applicable

## Corporate Governance Statement

The corporate governance statement explains how the Board has sought to protect shareholders' interests by protecting and enhancing shareholder value. Since the Company's listing, the Financial Reporting Council's UK Corporate Governance Code (the "Code") has been voluntarily followed by the Company. The Directors are ultimately responsible for the stewardship of the Company and this section explains how they have fulfilled their corporate governance responsibilities. This corporate governance statement forms part of the Directors' report.

On 28 October 2020, the Company's entire share capital (being 39,449,919 ordinary shares) was admitted to the premium listing segment of the Official List of the FCA and to the London Stock Exchange for the ordinary shares to be admitted to trading on the premium segment of the Main Market. The Board believes that the move to a premium listing will benefit the Company, including improving liquidity and broadening the appeal of the Company's ordinary shares to a wider range of shareholders.

Prior to admittance to trading on the premium segment of the Main Market, as set out in the Prospectus, the Company voluntarily adopted certain key provisions of the UK Listing Rules. Following admittance as a premium-listed company, the UK Listing Rules applicable to closed-ended investment companies that are listed on the premium listing segment of the UK Listing Authority now apply in full to the Company.

The Board remains fully committed to high standards of corporate governance and has, following year-end, taken steps to revise its committee structure and membership to be in line with developing good practice. This is set out in fuller detail in subsequent sections of this report.

The Listing Rules and the Disclosure Guidance and Transparency Rules (“DTR”) require the Board to disclose how it has applied the principles of the Code, published by the Financial Reporting Council (“FRC”) in July 2018. A copy of the Code is available from the website of the Financial Reporting Council at [www.frc.org.uk](http://www.frc.org.uk).

The Association of Investment Companies (“AIC”) has revised and published the AIC Code of Corporate Governance (the “AIC Code”) in February 2019. The AIC Code provides a comprehensive guide to best practice in certain areas of governance where the specific characteristics of investment trusts suggest alternative approaches to those set out in the Code. For the purposes of this Statement, the Board considers that reporting against the principles and recommendations of the AIC Code will provide more relevant and insightful information to shareholders. The AIC Code is available from the AIC’s website at [www.theaic.co.uk](http://www.theaic.co.uk).

## STATEMENT OF COMPLIANCE

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

For the reasons set out in the AIC Code, the Board considers the role of the Chief Executive and Executive Directors’ remuneration as being not relevant to the Company. 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.

The Board has decided that the systems and procedures employed by the Investment Manager and the other third-party providers in relation to the Company give sufficient assurance that a sound system of internal control, which safeguards the Company’s assets, is maintained, without the need for an in-house internal audit function. Updates on the work carried out by the Investment Manager’s outsourced internal audit function are presented to the Board on a quarterly basis. An internal audit function specific to the Company is therefore not considered necessary at this time. The need for an internal audit function will be considered on an annual basis.

The Board reported in the Company’s 2019 Annual Report and Financial Statements that it did not comply with the AIC Code in respect of the:

- Appointment of a Senior Independent Director;
- The Chairman’s position as Chairman of the Remuneration Committee; and
- The requirement for a separate Nomination Committee.

The Board explained in the 2019 Annual Report and Financial Statements the reasons for non-compliance with those provisions of the Code; however, the Board’s position has been to keep all areas of non-compliance with the AIC Code under periodic review. For the financial year ending 31 December 2020, the Company continued to not comply with the above provisions for the following reasons:

- In respect of the Senior Independent Director position, the Board considered that, being a small board with only three members, the SID position was not required.
- In respect of the recommendation that the Chairman of the Board not be appointed as Chair of the Remuneration Committee, the Board considered that Robert Sharpe was most suited to the role of Chairman of the remuneration and Nomination Committee due to the dual responsibilities of the Committee in remuneration and nomination matters, and his independence not being compromised as a result;
- In respect of the recommendation that the Board constitute a separate Nomination Committee, the Board considered that this would not be appropriate at that stage of the Company’s life and in view of the Board comprising of only three members.

In 2020, the Board determined to appoint a further Non-Executive Director, who would bring further skills and experience to the Board. This appointment exercise concluded with the appointment of Joanne Lake, who was appointed as a Director of the Company with effect from 1 January 2021. Further details on Joanne’s appointment can be found above.

Following Joanne’s appointment, and with regard to the increased size of the Board and the Company’s life cycle as well as the provisions in the AIC Code, the Board determined to:

- appoint Jim Coyle as Senior Independent Director with effect from 1 March 2021;
- split the functions of the Audit and Risk Committee into two separate committees, an Audit Committee and a Risk Committee; and to split the functions of the Remuneration and Nomination Committee into two separate committees, a Remuneration Committee and Nomination Committee; and

- appoint Joanne Lake as Chairman of the Remuneration Committee, with Robert Sharpe remaining as a member of the committee.

The Board is of the view that, following these changes, the Company now complies with the relevant provisions of the AIC Code in respect of the SID position and constitution and membership of the Remuneration Committee and Nomination Committee.

The Board and committee structure and membership during the year under review was:

<b>Board</b>	Robert Sharpe (Chairman) Jim Coyle Richard Rowney
<b>Audit and Risk Committee</b>	Jim Coyle (Chairman) Robert Sharpe Richard Rowney
<b>Remuneration and Nomination Committee</b>	Robert Sharpe (Chairman) Jim Coyle Richard Rowney
<b>Management Evaluation Committee</b>	Robert Sharpe (Chairman) Jim Coyle Richard Rowney

As at the date of this report the current Board and Committee structure, and membership, is as follows:

<b>Board</b>	Robert Sharpe (Chairman) Jim Coyle Richard Rowney Joanne Lake
<b>Audit Committee</b>	Jim Coyle (Chairman) Robert Sharpe Richard Rowney Joanne Lake
<b>Risk Committee</b>	Richard Rowney (Chairman) Robert Sharpe Jim Coyle Joanne Lake
<b>Remuneration Committee</b>	Joanne Lake (Chairman) Robert Sharpe Jim Coyle Richard Rowney
<b>Nomination Committee</b>	Robert Sharpe (Chairman) Jim Coyle Richard Rowney Joanne Lake
<b>Management Evaluation Committee</b>	Robert Sharpe (Chairman) Jim Coyle Richard Rowney Joanne Lake

## THE BOARD OF DIRECTORS

The Board consists of four Directors, all of whom are independent non-executive Directors.

Biographies of the Directors are shown above and demonstrate the wide range of skills and experience that they bring to the Board. The Directors possess business and financial expertise relevant to the direction of the Company and consider themselves to be committing sufficient time to the Company's affairs.

None of the Directors has a service contract with the Company, nor are any such contracts proposed. Each Director has been appointed pursuant to a letter of appointment entered into with the Company in accordance with the Company's articles of association. The Directors' appointment can be terminated in accordance with the Company's articles of association and without compensation. There are no agreements between the Company and any Director which provide for compensation for loss of office in the event that there is a change of control of the Company.

Copies of the letters of appointment are available on request from the Company Secretary and will be available at the Company's 2021 AGM

The Chairman, Robert Sharpe, is independent and considers himself to have sufficient time to commit to the Company's affairs. The Chairman's other commitments are detailed in his biography above. The responsibilities of the Chairman have been agreed by the Board and are available to view on the Company's website.

The Directors appointed Jim Coyle as Senior Independent Director, with effect from 1 March 2021, and will, amongst his other duties in that role, lead the evaluation of the Chairman on behalf of the other Directors as part of the annual evaluation process.

## THE OPERATION OF THE BOARD

The Board of Directors meets at least four times a year and more often if required. The table below sets out the Directors' attendance at scheduled Board and Committee meetings during the year under review.

Director	Board <sup>1</sup>	Audit and Risk Committee	Remuneration and Nomination Committee	Management Engagement Committee
Robert Sharpe	6	4	2	1
Jim Coyle	6	4	2	1
Richard Rowney	6	4	2	1
<b>Total</b>	<b>6</b>	<b>4</b>	<b>2</b>	<b>1</b>

<sup>1</sup>A number of additional ad-hoc meetings of the Board were held throughout the year to discuss transactional matters.

No individuals other than the committee or Board members are entitled to attend the relevant meetings unless they have been invited to attend by the Board or relevant committee.

Directors are provided with a comprehensive set of papers for each Board or Committee meeting, which equips them with sufficient information to prepare for the meetings.

The Board has a formal schedule of matters specifically reserved to it for decision and also has oversight of the Investment Manager's operations and certain corporate actions to ensure effective control of strategic, financial, operational and compliance issues, which includes:

- The Group's structure including share issues and setting a discount/premium management programme;
- Risk management;
- Appointing the Investment Manager and other service providers and setting their fees;
- Reviewing and approving Board changes;
- Considering and authorising Board conflicts of interest;
- Reviewing and approving the Group's audited annual financial statements and half yearly financial statements including accounting policies;
- Reviewing Investment Manager's conflicts of interest and whistleblowing policies;
- Reviewing and approving the Group's level of gearing;
- The review and approval of terms of reference and membership of Board Committees; and
- Reviewing and approving liability insurance. There is a procedure in place for the Directors to take independent professional advice at the expense of the Company.

The Company has taken out directors' and officers' liability insurance, such cover to be maintained for the full term of each Director's appointment.

## Culture

The Directors have considered and defined the Company's culture, purpose and values. By formally identifying the important elements of the Company's culture, the Directors are able to assess and monitor it and ensure that it remains well aligned with the Company's purpose, values and strategy.

The Company has a well-defined and communicated purpose, as set out in the investment objective set out above. The Directors have considered the values to be transparency and clarity in its reporting to shareholders, constructive challenge in maintaining a strong relationship with the Investment Manager whilst preventing the addition of avoidable risk in the Company's operations. In its strategy, the Board have committed to work closely with and support the Investment Manager to deliver the returns from opportunities in speciality lending.

The culture of the Board is considered as part of the annual performance evaluation and strategy review processes and the review of the Investment Manager's engagement.

### **Independence of Directors**

Each of the Directors was considered, on appointment, to be independent of the Investment Manager and free from any business or other relationship that could materially interfere with the exercise of his independent judgement and remained so throughout the year. The Board is of the view that there are no relationships or circumstances relating to the Company that are likely to affect the judgement of any of the Directors.

The Board notes that Joanne Lake is a Director of Morses Club plc, an entity for which the Company provides a facility, and this was considered by the Board upon her appointment. The Board has determined that, in view of the size of the current facility provided to Morses Club plc, her directorship of Morses Club plc does not impinge upon Joanne's independence. The Board has nonetheless agreed that, should any matters need to be considered by the Board in the future in the context of the Morses Club plc exposure, Ms Lake could be excluded from voting or discussions as appropriate.

Care will be taken at all times to ensure that the Board is composed of members who, as a whole, have the required knowledge, abilities and experience to properly fulfil their role and are sufficiently independent.

### **Board evaluation**

The performance of the Board, its committees and Directors and the independence of the Directors during 2020 was evaluated by means of a Director self-assessment questionnaire. The results of the evaluation process were reviewed by the Board in November 2020 and actions arising from the evaluation process were agreed. Maintaining business performance, looking for further opportunities for sustainable growth and to fully utilise the benefits of the Company's premium listed status were identified as focal areas for 2021 through the evaluation.

In terms of Director training, the Company Secretary, the Board or the Investment Manager upon request of the Board or any Director individually, will offer induction training to new Directors about the Company, its key service providers, the Directors' duties and obligations and other matters as may be relevant from time to time.

The Board members are encouraged to keep up to date and attend training courses on matters which are directly relevant to their involvement with the Company.

### **Board appointment, election and tenure**

The rules concerning the appointment and replacement of Directors are contained in the Company's articles of association and the Companies Act 2006.

None of the Directors consider length of service as an impediment to independence or good judgement but, if they felt that this had become the case, the relevant Director would stand down.

The Board considers that all of the current Directors contribute effectively to the operation of the Board and the strategy of the Company. The Board has considered each Board member's independence from the Company and Investment Manager. As such the Board believes that it is in the best interests of shareholders that each of the Directors be re-elected at the forthcoming AGM. The next AGM will be held in June 2021.

## **MANAGEMENT AGREEMENT AND CONTINUING APPOINTMENT**

Details of the Investment Manager's agreement and fees are set out in Note 6 to the financial statements.

### **Directors' Interests**

No Director holds shares in the Company. The Board keeps the performance of the Investment Manager under continual review. The Company's Management Engagement Committee undertook its annual appraisal of the Investment Manager during the year under review on 25 February 2021.

The Management Engagement Committee recommended to the Board that the appointments of all the Company's third-party service providers continue. It was felt that their continued appointment was in the best interests of the shareholders as the Investment Manager had performed in line with expectations and the Board is of the opinion that the continuing appointment of the Investment Manager on the terms agreed is in the interests of the Company's shareholders as a whole.

## CONFLICTS OF INTEREST

The Company's articles of association provide that the Directors may authorise any actual or potential conflict of interest that a Director may have, with or without imposing any conditions that they consider appropriate on the Director in question. Directors are not able to vote in respect of any contract, arrangement or transaction in which they have a material interest, and, in such circumstances, they are not counted in the quorum at the relevant Board meeting. A process has been developed to identify any of the Directors' potential or actual conflicts of interest. This includes declaring any potential new conflicts before the start of each Board meeting. A schedule is maintained of each Director's potential conflicts of interest.

## COMMITTEES

As set out above, the Committee structure was reviewed by the Board in late 2020 and early 2021. As at the date of this report, the Board now constitutes the following Committees:

- Audit Committee
- Risk Committee
- Remuneration Committee
- Nomination Committee
- Management Evaluation Committee

All four Board members are members of each Committee. The Terms of Reference of each Committee is available from the office and the Company's website at [www.honeycombplc.com](http://www.honeycombplc.com).

Each Committee reports to the Board on its proceedings after each meeting.

### **Audit Committee**

The Board has delegated certain responsibilities to its Audit Committee. An outline of the remit of the Audit Committee (as constituted for the reporting period) and its activities during the year are set out below.

The Audit Committee is chaired by Jim Coyle and meets at least on a quarterly basis. It is responsible for ensuring that the financial performance of the Group is properly reported and monitored and provides a forum through which the Group's external auditors may report to the Board. The Audit Committee reviews and recommends to the Board the annual and half-yearly reports and financial statements, and financial announcements.

Following the reorganisation of the Board committee structure post-year end, the Audit Committee has retained responsibility for:

- monitoring the integrity of the Company's financial reporting and any formal announcements relating to financial performance (as detailed below);
- reviewing significant financial reporting judgements;
- ensuring the adequacy of the financial controls in place across the Company;
- overseeing the work of the external auditor and making recommendations to the Board on the appointment of the external auditor (as detailed below);
- reviewing the need for an internal audit function and receiving reports as required on any internal audit findings relating to the Investment Manager.

Further details on the work of the Audit Committee can be found in the report of the Audit and Risk Committee below.

### **Risk Committee**

The Risk Committee is chaired by Richard Rowney and meets at least once a year. The Risk Committee is responsible for reviewing:

- the Group's internal control and risk management systems; and
- key policies and processes for identifying and assessing both financial and non-financial business risks, (including compliance, fraud detection and whistleblowing arrangements), the management of these risks (including quality, ethics and independence) along with an assessment of their robustness, appropriateness and effectiveness.

The Risk Committee reviews and approves statements to be included in the annual report concerning internal controls and risk management; assessment of the adequacy of the levels of professional indemnity insurance and other insurance

cover maintained for the Company. The Risk Committee also reviews and considers on an annual basis whether there is a need for an internal audit function.

### **Remuneration Committee**

The Remuneration Committee is chaired by Joanne Lake and meets at least once a year.

The primary responsibility of the Committee is to consider and make recommendations to the Board on Directors' remuneration.

### **Nomination Committee**

The Nomination Committee is chaired by Robert Sharpe and meets at least once a year. The responsibilities of the Nomination Committee include:

- To review the structure, size and composition of the Board;
- To ensure plans are in place for orderly succession to the board and oversee the development of a diverse pipeline for succession;
- To evaluate the balance of skills, knowledge, experience and diversity of the Board;
- Responsibility for nominating for the approval by the board candidates to fill board vacancies as they arise;
- To consider additional external appointments of Directors;
- To consider the membership of any other Board committees as appropriate, in consultation with the Chairman of those committees;
- To consider the re-appointment of any non-executive director and to provide an explanation as to why the Committee recommends that the Board member be re-appointed for shareholder consideration. All Board Members to be subject to annual re-election; and
- To determine and disclose a policy on the tenure of the chair. A clear rationale for the expected tenure should be provided, and the policy should explain how this is consistent with the need for regular refreshment and diversity.

### **Management Evaluation Committee**

The Management Evaluation Committee is chaired by Robert Sharpe and meets at least once a year. Its principle duties are:

- On an annual basis, to formally review the contractual relationships with, and scrutinize and hold to account the performance of, the Investment Manager and report on the review in the Annual Report.
- To review and consider, at least annually, the Investment Manager fees and services as set out in the Management Agreement; and
- In conjunction with the Investment Manager, monitor and evaluate other service providers.

## **COMPANY SECRETARY**

The Board has direct access to the advice and services of the Company Secretary, which is responsible for ensuring that the Board and Committee procedures are followed, and that applicable rules and regulations are complied with. The Company Secretary is also responsible for ensuring good information flows between all parties.

## **REVIEW OF SHAREHOLDER PROFILE**

The Board reviews reports provided by qualified independent industry consultants and the Company's broker on the Company's shareholder base and its underlying beneficial owners. The Investment Manager and brokers disclose any concerns raised by shareholders to the Board.

## **RELATIONS WITH SHAREHOLDERS**

All shareholders will ordinarily have the opportunity to attend and vote, in person or by proxy, at the AGM and any general meetings of shareholders. While shareholders were unable to attend and vote in person at the 2020 AGM due to the restrictions introduced in response to the Covid-19 pandemic, alternative arrangements were provided to shareholders to facilitate engagement with the Board prior to, and at, the AGM.

The notice of the AGM, which is sent out at least 21 days in advance of the AGM, sets out the business of the meeting and any item not of an entirely routine nature is explained in the Directors' report. Separate resolutions are proposed in respect of each substantive issue.

Shareholders are encouraged to attend the AGM and to participate in proceedings. The Chairman of the Board and the Directors, together with representatives of the Investment Manager, will be available to answer shareholders' questions at the AGM. Proxy voting figures are available to shareholders at the AGM.

The Investment Manager holds regular discussions with major shareholders, the feedback from which is provided to and greatly valued by the Board. The Directors are available to enter into dialogue and correspondence with shareholders regarding the progress and performance of the Company. Further information about the Company can be found on the Company's website [www.honeycombplc.com](http://www.honeycombplc.com).

## INTERNAL CONTROL REVIEW

The Board has elected not to have an internal audit function as the Company delegates its operations to third-party service providers and does not employ any staff. Instead it has been agreed that the Company will rely on the internal controls which exist within its third-party providers.

The Administrator, Depositary and Investment Manager have established internal control frameworks to provide reasonable assurance on the effectiveness of the internal controls operated on behalf of their clients. The Investment Manager, the Administrator, the Depositary and the Company Secretary will report on any breaches of law or regulation, if and when they arise, periodically in scheduled Board reports. The Audit Committee and Risk Committee consider annually whether there is any need for an internal audit function, and they have agreed that it is appropriate for the Company to rely on the internal audit controls which exist within its third-party providers. Updates on the Investment Manager's outsourced internal audit function are brought to the Board on a quarterly basis.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and for reviewing the effectiveness of the Group's system of internal controls including financial, financial reporting, operational, compliance and risk management. The Board has in place a robust process to assess and monitor the risks of the Group. The Board has reviewed the effectiveness of the Administrator and the Investment Manager's systems of internal control and risk management. During the year under review, the Board has not identified any significant failings or weaknesses in the internal control systems of its service providers.

The Group has established a risk matrix, consisting of the key risks and controls in place to mitigate those risks. The Board confirms that there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Group. Details of the Group's risks can be found above in the Strategic Report, together with an explanation of the controls that have been established to mitigate each risk. The risk matrix provides a basis for the Risk Committee and the Board to regularly monitor the effective operation of the controls and to update the matrix when new risks are identified.

The system of internal control and risk management is designed to meet the Group's particular needs and the risks to which it is exposed. The Board recognises that these control systems can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss.

## ALTERNATIVE INVESTMENT FUND MANAGEMENT DIRECTIVE DISCLOSURE

### Quantitative remuneration disclosure

In accordance with 3.3.5 (5) of the FCA's Investment Funds Sourcebook ("FUND") and in accordance with FCA Finalised guidance – General guidance on the AIFM Remuneration Code (SYSC 19B) ("the Guidelines"), dated January 2014, the total remuneration paid by Pollen Street Capital Group companies which include the AIFM during the year was £16.1 million, split £7.2 million into variable and £8.9 million in fixed remuneration. During the year, the average number of beneficiaries at the Group which includes the AIFM were 75 and the aggregate amount of remuneration paid in relation to the Senior Management of the firm was £4.1 million. Fixed remuneration is amounts paid as salaries. Variable remuneration is amounts paid under bonus arrangements and distributions. The AIFM does not consider that any individual member of staff of the AIFM has the ability to materially impact the risk profile of the Company.

### Other disclosures

The AIFMD requires that the AIFM ensures that certain other matters are actioned and or reported to investors. Each of these is set out below.

- Provision and content of an Annual Report (FUND 3.3.2 and 3.3.5). The publication of the Annual Report and Financial Statements of the Company satisfies these requirements.
- Material changes of information. The AIFMD requires certain information to be made available to investors in the Company before they invest and requires that material changes to this information be disclosed in the Annual Report.

### Periodic disclosure (FUND 3.2.5 and 3.2.6)

There are no assets subject to special arrangements due to their illiquid nature and no new arrangements for the managing of the liquidity of the Company.

There is no change to the arrangements, as set out in the Prospectus, for managing the Company's liquidity.

The current risk profile of the Company is set out in the Strategic Report: Principal Risks and Uncertainties above and in Note 14 to the financial statements, Financial Risk Management.

The Company is permitted to be leveraged and has borrowing restrictions in place. In accordance with the Company's prospectuses dated 18 December 2015, 25 May 2017 and 21 December 2018 (the "Prospectus"), the Company has a maximum limit of 100 per cent of NAV, the actual leverage employed by the Company as a percentage of NAV was 76.6 per cent. There have been no breaches of the permitted leverage limits within the year and no changes to maximum level of leverage employed by the Company.

The table below sets out the current maximum permitted and actual leverage under the gross and commitment method in accordance with Annex IV Article 8 of the AIFMD. This differs from the Company's borrowing restriction, which is an absolute measure. The gross and commitment method are ratios between the Company's gross assets and NAV. The gross method represents the sum of the Company's positions (total assets) after deducting cash balances. The commitment method represents the sum of the Company's positions without deducting cash balances. The Company is required to state its maximum and actual leverage levels, calculated as prescribed by the AIFMD as at 31 December 2020, and are as follows:

<b>As a percentage of net asset value</b>	<b>Gross method</b>	<b>Commitment method</b>
Maximum level of leverage	200%	200%
Leverage as at 31 December 2020	162%	179%

#### **Other matters**

The Investment Manager can confirm that the required reporting to the FCA has been undertaken in accordance with FUND 3.4.

#### **APPROVAL**

This Directors' Report was approved by the Board of Directors on 29 April 2021.

On behalf of the Board

#### **Robert Sharpe**

Chairman  
29 April 2021

#### **Report of the Audit and Risk Committee**

As Chairman of the Audit and Risk Committee during 2020, I am pleased to present the Audit and Risk Committee report for the year ended 31 December 2020. Full details of the number of committee meetings and attendance by individual committee members can be found above.

Following the end of the reporting period, the Board made the decision in February 2021 to split the functions of the Audit and Risk Committee into two separately constituted committees of the Board – the Audit Committee and the Risk Committee. For this reason, this report details the activities of the Audit and Risk Committee for the year ended 31 December 2020. Future annual reporting to shareholders will reflect the activities of each Committee separately.

#### **MEMBERSHIP OF THE AUDIT AND RISK COMMITTEE**

For the reporting period, the Audit and Risk Committee comprised of all Directors and was chaired by Jim Coyle. Please see above for the members' biographies. All members of the Committee have recent and relevant financial experience, as a result of their involvement in financial services and other industries.

As Chairman of the Audit and Risk Committee, I can confirm that I am a Chartered Accountant and I maintain my membership of the Institute of Chartered Accountants of Scotland. As such, I have relevant financial experience. The AIC Corporate Governance Code stipulates that, should the Chairman of the Board be a member of the Audit and Risk Committee, an explanation should be provided as to why this is considered appropriate.

Given the size of the Board and Mr. Sharpe's relevant financial experience gained through his involvement with other businesses during his career and given our opinion that the Chairman is independent, it was considered appropriate during the reporting period that Mr Sharpe be a member of the Audit and Risk Committee. Mr Sharpe remains a member of both the Audit Committee and Risk Committee, following the Board's decision to split the Audit and Risk Committee's

functions (as described below), and the Board considers the same reasons as above apply for his continued membership of the Audit Committee and the Risk Committee.

## THE ROLE OF THE AUDIT AND RISK COMMITTEE

The role of the Audit and Risk Committee is defined in its terms of reference, which can be found on the Company's website at [www.honeycombplc.com](http://www.honeycombplc.com).

For the year ended 31 December 2020, the roles and responsibilities of the Audit and Risk Committee include the following:

<b>Financial and narrative reporting</b>	<ul style="list-style-type: none"><li>• To monitor the financial reporting process;</li><li>• To review and monitor the integrity of the half-year and annual financial statements and review and challenge where necessary the accounting policies and judgements of the Investment Manager and Administrator</li></ul>
<b>Internal controls and risk management</b>	<ul style="list-style-type: none"><li>• To review the adequacy and effectiveness of the Group's internal financial and internal control and risk managements systems;</li></ul>
<b>External audit</b>	<ul style="list-style-type: none"><li>• To make recommendations to the Board on the reappointment or removal of the external auditors and to approve its remuneration and terms of engagement;</li><li>• To review and monitor the external auditors' independence and objectivity;</li></ul>
<b>Internal audit</b>	<ul style="list-style-type: none"><li>• To review and consider on an annual basis the need for an internal audit function.</li></ul>

## THE COMMITTEE'S CHALLENGE OF INFORMATION

The Committee recognises the importance of its role, on behalf of shareholders and wider stakeholders, to ensure the integrity of the Group's financial reporting and risk management processes. We rely on a number of sources to ensure this integrity, including the views of the external auditor.

The Committee has worked with the Investment Manager and other service providers over the course of 2020 to continue to improve the quality and timeliness of written and verbal reporting to the Committee and we are pleased with progress to date. These continued improvements have enriched the debate and discussion at the meetings of the Committee and supported the Committee to fulfil its responsibilities, which are set out below.

## MATTERS CONSIDERED DURING THE YEAR

The Audit and Risk Committee met four times during the year under review (please see above for member's attendance) and considered the following items:

- The Group's Audited Annual Report and Financial Statements for the year ended 31 December 2019 and advised the Board accordingly;
- The Company's half-year financial statements for the period ended 30 June 2020 and advised the Board accordingly;
- The independence and re-appointment of the external auditor;
- The audit plan for the Group's annual audit shared by the external auditors;
- The Company's policy on non-audit services;
- Monitored the Investment Manager's impairment approach required by IFRS 9;
- In order to support the Board's approval of the going concern assessment and viability statement above as to the longer-term viability of the Group, the Committee reviewed papers from the Investment Manager supporting the going concern and the viability statement;
- The Company's dividend policy;
- The Investment Manager's whistleblowing policy; and
- The potential impact and risks associated with the Covid crisis.

The Audit and Risk Committee also reviewed the following items:

- Whether there was a requirement for an internal audit function;
- The risk management report presented by the Investment Manager along with the Group's risk appetite statement, risk matrix and the internal controls implemented to manage those risks; and
- The appropriateness of the Group's accounting policies and whether appropriate estimates and judgements have been made.

## FAIR BALANCED AND UNDERSTANDABLE REPORTING

Following the year end, the Audit Committee has reviewed the 2020 Annual Report to consider whether it provided a true and fair view of the Group's affairs at the end of the year and provided shareholders with the necessary information in a fair, balanced and understandable way in order to enable them to assess the Group's position, performance, business model and strategy.

There was a rigorous review process and challenge at different levels within the Group to ensure balance and consistency. The Committee also reviewed copies of the 2020 Annual Report and Financial Statements during the drafting process to ensure key messages and themes being followed throughout the Annual Report were aligned with the Company's position, performance and strategy intentions, and that the Annual Report's narrative reporting was consistent with the Financial Statements.

When forming its opinion, the Committee considered the following questions in order to encourage challenge and assess whether the Annual Report and Financial Statements was fair, balanced and understandable:

Is the Report fair?	<ul style="list-style-type: none"><li>• Is the whole story presented?</li><li>• Have any sensitive material areas been omitted?</li><li>• Are the KPIs disclosed at an appropriate level based on the financial reporting?</li></ul>
Is the Report balanced?	<ul style="list-style-type: none"><li>• Is there a good level of consistency between the front and back sections of the Annual Report and Financial Statements?</li><li>• Is the Annual Report a document for shareholders and other stakeholders?</li></ul>
Is the Report understandable?	<ul style="list-style-type: none"><li>• Is there a clear and understandable framework to the Annual Report?</li><li>• Is the Annual Report presented in straightforward language and a user-friendly and easy to understand manner?</li></ul>

### Conclusion

After completion of its detailed review, the Committee was satisfied, when taken as a whole, the Company's Annual Report and Financial Statements were fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

## SIGNIFICANT ACCOUNTING MATTERS

The Audit Committee met on 21 April 2021 to review the report and financial statements for the year ended 31 December 2020. The Audit Committee considered the following significant issues, including principal risks and uncertainties in light of the Group's activities and issues communicated by the Auditors during their audit, all of which were satisfactorily addressed:

Issue considered	How the Committee gained assurance
Risk of misappropriation of assets and ownership of investments	The Audit and Risk Committee has reviewed reports from its service providers on key controls over the assets of the Group over the course of 2020, a role that will be performed by the Audit Committee in 2021. Any significant issues are reported to the Board by the Investment Manager or the Company's Depositary. The Investment Manager has put in place procedures to ensure that investments can only be made to the extent that the appropriate contractual and legal arrangements are in place to protect the Group's assets. The Company's Depositary issues a quarterly report on the status of the assets to the Directors for review.
Risk on valuations of unlisted equities at fair value	The Audit and Risk Committee received presentations in 2020 and 2021 from the Investment Manager including valuations of equity assets held at fair value and justification for these. After challenging the Investment Manager, the Committees concluded that the valuations held were reasonable.
The risk of material misstatement of expected credit losses under IFRS 9 Financial instruments	The Audit and Risk Committee view credit provisioning as the key accounting estimate area for the Group. As in previous years, the Audit Committee and Risk Committee received presentations in 2020 from the Investment Manager explaining key judgement areas, such as, consistency of approach and the Group's business mix. After challenging the Investment Manager, the Committees concluded that the provisioning approach and key judgements were reasonable. The Investment Manager also reviews impairment performance on a monthly basis and reviews its impairment policy for appropriateness and accuracy on a regular basis to ensure they meet the accounting policy set out in Note 1 to the financial statements.

---

A particular focal area for the Committees in 2020 has been on the actual and forecasted impact of Covid-19 on expected credit losses. The Committees have carefully challenged a number of the assumptions underpinning our reporting under IFRS 9. The impact of Covid-19 more widely is described in the Strategic Report above; and the Board's role in managing this impact over the course of 2020 is set out in the s172 statement above.

---

Going concern and viability statement

The Audit Committee reviewed a paper from the Investment Manager in support of the going concern basis and the longer-term viability of the Group.

The Committee noted the stability of the Group's business model, its successful track record, the Group's three-year financial projections, the assessment of the required discontinuation vote and the results of internal stress testing in relation to Covid-19 and concluded this provided sufficient evidence to support the Board's viability statement set out above. The Committee will continue to monitor this area closely given the expected material impact of Covid-19 on the profitability of the business as the longer-term effects on the UK economy continue to be seen.

---

Fair, balanced and understandable

The approach taken by the Committee in determining whether the Annual Report is, when taken as a whole, fair, balanced and understandable is described in greater detail in this Audit Committee report above.

---

Retention of Investment Trust Status

The Audit Committee received a report from the Investment Manager in April 2021 confirming if the Company has remained compliant with the requirements to maintain its Investment Trust status. HMRC approved the investment status of the Company. The Directors regularly review the investments and their mix to ensure they remain diversified, its retained income levels to ensure sufficient distributions are made and the Company's shareholdings to determine if the Company has become a close company.

---

## External auditors

The Group's external auditors, PricewaterhouseCoopers LLP ("PwC"), were appointed on 16 May 2016 and last re-appointed on 26 June 2020 at the Company's AGM. Under the Financial Reporting Council's transitional arrangements, the Company is required to re-tender, at the latest, by 2025. The Audit and Risk Committee intends to re-tender within the timeframe set by the Financial Reporting Council.

The individual at PwC who acts as the Group's appointed audit partner is Mr. Richard McGuire. In accordance with the Financial Reporting Council's Revised Ethical Standard 2019, the audit partner must rotate at least every five years. As this is Mr. McGuire's fifth year as audit partner, he will rotate out of this role during 2021. The Committee discussed succession planning arrangements during 2020 & 2021 and noted the expected appointment of Claire Sandford as audit partner for the Company.

The audit and non-audit fees for the year under review can be found in Note 7 to the financial statements.

## NON-AUDIT SERVICES

In relation to non-audit services, the Audit and Risk Committee has reviewed and implemented a policy on the engagement of the auditors to supply non-audit services and this is reviewed on an annual basis. All requests or applications for other services to be provided by the auditors over a threshold are submitted to the Audit and Risk Committee and will include a description of the services to be rendered and an anticipated cost. The Audit and Risk Committee will review the scope and size of any such services provided and any consequent impact upon the auditors' independence.

The Group's policy follows the requirements of the Financial Reporting Council's Revised Ethical Standard for Auditors published in December 2019. The policy specifies a number of prohibited services which it is not permitted for the auditors to provide under the revised Ethical Standard.

The auditors did not provide any non-audit services to the Company in 2020 (2019: nil).

## EXTERNAL AUDIT INDEPENDENCE

The Committee has undertaken a formal assessment of PwC's independence, which included a review of:

---

a report from PwC describing their arrangements to identify, report and manage any conflicts of interest; their policies and procedures for maintaining independence and monitoring compliance with relevant requirements; and

---

---

the value of non-audit services provided by PwC (as described above).

---

The Audit and Risk Committee monitors the auditors' objectivity and independence on an ongoing basis. In determining PwC's independence, the Audit and Risk Committee has assessed all relationships with PwC and received confirmation from PwC that it is independent and that no issues of conflicts arose during the year. The Audit and Risk Committee is therefore satisfied that PwC is independent.

## EXTERNAL AUDIT EFFECTIVENESS

The Audit Committee monitors and reviews the effectiveness of the external audit process on an annual basis and makes recommendations to the Board on its re-appointment, remuneration and terms of engagement of the auditors. Over the reporting period, the Audit and Risk Committee met with the audit partner and assessed PwC's performance to date. I have met with Mr. McGuire separately to discuss the Group's audit and other matters concerning the Group. I can confirm that Mr. McGuire did not raise any issues of concern during our meeting. The review has involved an examination of the auditors' remuneration, the quality of its work including the quality of the audit report, the quality of the audit partner and audit team, the expertise of the audit firm and the resources available to it, the identification of audit risk, the planning and execution of the audit and the terms of engagement.

Accordingly, the Audit Committee recommended to the Board that it proposes to shareholders via an ordinary resolution that PwC be reappointed as auditors at the AGM. PwC has confirmed its willingness to continue in office.

The Audit Committee has direct access to the Group's auditors and provides a forum through which the auditor's report to the Board. Representatives of PwC attend Audit Committee meetings at least twice annually.

## INTERNAL AUDIT

The Audit Committee believes that the Group does not require an internal audit function, principally because the Group delegates its day-to-day operations to third parties, which are monitored by the Audit and Risk Committee, and which provide control reports on their operations at least annually. Updates on the Investment Manager's outsourced internal audit function are brought to the Board via the Audit Committee on a quarterly basis.

## APPROVAL

This Report was approved by the Audit Committee on 29 April 2021.

### **Jim Coyle**

Chairman of the Audit Committee

29 April 2021

## **Directors' Remuneration Report**

### STATEMENT FROM THE CHAIRMAN

As Chairman of the Remuneration Committee, I am pleased to present the Directors' remuneration report for the year ended 31 December 2020, prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Companies Act 2006. The Group's auditors are required to verify certain information within this report subject to statutory audit by the Companies Act 2006. Where information set out below has been audited it is indicated as such.

Following the end of the reporting period, the Board made the decision in February 2021 to split the functions of the Remuneration and Nomination Committee into two separately constituted Committees of the Board – the Remuneration Committee and the Nomination Committee. For this reason, this report details the activities of the Remuneration and Nomination Committee for the year ended 31 December 2020. Future annual reporting to shareholders will reflect the activities of each Committee separately.

As at 31 December 2020, the Remuneration and Nomination Committee comprised all Directors and was chaired by Robert Sharpe.

As at the date of this report, the Remuneration Committee comprises all Directors and is chaired by Joanne Lake. The Nomination Committee comprises all Directors and is chaired by Robert Sharpe. Please see above for the member's biographies, and full details of the number of committee meetings and attendance by individual committee members can be found above.

We are required to seek shareholder approval of the Directors' remuneration policy at least every third year and the remuneration report annually. Any changes to the Directors' remuneration policy will require shareholder approval. An ordinary resolution was passed to approve the Directors' remuneration policy at the Company's 2020 AGM held on 26 June 2020. This policy was adopted at that meeting with effect from the date of the AGM and remained in force for the year ended 31 December 2020 and will remain in force for the two subsequent years. An ordinary resolution to approve the Directors' remuneration policy will be put to shareholders at least once every three years. At the 2021 AGM, shareholders will also be asked to consider an advisory resolution on the contents of the Directors' remuneration report.

As at 31 December 2020, the Board comprised three non-executive Directors, all of whom are independent of the Investment Manager. Joanne Lake was appointed to the Committee on 1 January 2021.

Given the size of the Board, and as the Company has no employees, it was not considered appropriate for the Company to establish a separate Nomination Committee. This position has been kept under continual review and, in February 2021, the Board determined that, in view of the Board's increased size to four members, and developing good practice and expectations from investors and regulators, it would be appropriate to constitute a separate Nomination Committee, with effect from 1 March 2021.

For the year ended 31 December 2020, the responsibilities of the Remuneration and Nomination Committee were to:

- consider and approve Directors' remuneration;
- review the structure, size and composition of the Board;
- plan for adequate Board succession and evaluate the balance of experience and diversity of the Board.

At the start of 2020, the Directors' remuneration was set at a rate of £48,000 per annum for the Chairman and £40,000 per annum for the other Directors. A further £5,000 per annum was payable to the Chairman of the Audit and Risk Committee. This rate of remuneration applied throughout the financial year ended 31 December 2020.

In line with the Board's remuneration policy, and Directors' entitlement to additional fees in respect of any additional services performed by them, the Remuneration and Nomination Committee reviewed a proposal for additional variable fees to be payable to Directors in respect of the corporate action that took place over the course of the financial year, which required Directors to dedicate additional time to review associated documents and to attend additional meetings.

Following such discussion, and upon the advice of the Remuneration and Nomination Committee, the Board agreed an additional variable payment to all Directors of £15,000 in connection with their additional duties relating to a potential corporate action. Such fees were set with regard to other comparable investment companies who have undertaken equivalent activities.

The Committee met on 25 February 2021 and considered the continued time commitment required to carry out their duties. In that discussion, the Committee noted the additional duties and responsibilities to be placed upon directors of the Company following the Company's move to a premium listing. The Committee also had regard to market trends in remuneration in comparable UK-listed companies. Following that discussion, the Board approved, following the recommendation of the Committee, the following fee structure for Directors with effect from 1 March 2021:

<b>Chairman</b>	£60,000 per annum
<b>Senior Independent Director</b>	£50,000 per annum
<b>Non-Executive Director</b>	£45,000 per annum
<b>Chair of Audit Committee</b>	Additional supplement of £5,000 per annum
<b>Chair of Risk Committee</b>	Additional supplement of £5,000 per annum

As noted subsequently in this Report, in the absence of further major increases in the workload and responsibility involved, the Board does not expect fees to increase significantly over the next two years.

Many parts of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 do not apply to the Company as the Board is comprised entirely of non-executive Directors and the Company has no employees. The Board has considered and approved a formal policy for the approval of Directors' expenses.

## DIRECTORS' SUCCESSION POLICY

At the start of 2019, the Association of Investment Companies (the "AIC") published an updated AIC Code of Corporate Governance. The Committee welcomed the AIC's approach to tenure of chairs of investment companies which, recognising that the circumstances of chairs of investment companies differed from other companies, the AIC recommended that instead of adhering to a nine year limit on chair tenure, the Boards could determine and disclose their policy on the chair tenure instead.

Taking the AIC recommendations into account, the Board has adopted a policy on Directors' Succession. In accordance with the policy, the Company has put into effect an orderly rotation of the Board which commenced at the 2019 AGM and will subsequently occur every other year. In view of the uncertainties created by the Covid-19 pandemic, the Board has been of the view that continuity on the Board has been beneficial to the effectiveness of the Board and to the Company as a whole over the course of 2020. The Board will continue to review succession arrangements at Board level and determine the most appropriate time for the next phase of the succession policy to be implemented.

## DIRECTORS' REMUNERATION POLICY

The fees for the Board as a whole are limited to £250,000 per annum in accordance with the Prospectus, divided between the Directors as they may determine. Subject to this limit, the Board's policy is that remuneration of non-executive Directors should reflect the experience of each Board member and the time commitment required by Board members to carry out their duties and is determined with reference to the appointment of Directors of similar investment companies. The level of remuneration has been set with the aim of promoting the future success of the Group.

With this in mind, the Board considers remuneration in order to attract individuals of a calibre appropriate to promote the long-term success of the Company and to reflect the specific circumstances of the Company and its field of investment, the duties and responsibilities of the Directors and the value and amount of time commitment required of Directors to the Group's affairs.

Due regard is taken of the Board's requirement to attract and retain individuals with suitable knowledge and experience and the role that individual Directors fulfil. There are no specific performance-related conditions attached to the remuneration of the Board and the Board members are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other non-cash benefits or taxable expenses. No other payments are made to Directors other than reasonable out-of-pocket expenses which have been incurred as a result of attending to the affairs of the Company.

In addition to the Board's remuneration, Board members are entitled to such fees as they may determine in respect of any extra or special services performed by them, having been called upon to do so. Such fees would only be incurred in exceptional circumstances. An example of such a circumstance would be if the Company was to undertake a corporate action, which would require the Board to dedicate additional time to review associated documents and to attend additional meetings. Such fees would be determined at the Board's absolute discretion and would be set at a similar rate to other comparable investment companies who have undertaken equivalent activities. The fees would be set with the Company's long-term success in mind and the interests of the Company's members as a whole would be considered prior to the setting of such fees.

None of the Directors has a service contract with the Company, nor are any such contracts proposed. Instead, Directors are appointed pursuant to a letter of appointment entered into with the Company. There is no notice period specified in the letters of appointment or Articles of Association for the removal of Directors. Directors are not appointed for a specific term, subject to any policy on tenure or orderly succession which may be adopted by the Board from time to time. Copies of the Directors' letters of appointment are available at each of the Company's AGMs and can be obtained from the Company's registered office.

The Directors are not entitled to exit payments and are not provided with any compensation for loss of office.

As with most investment trusts there is no Chief Executive Officer and no employees. The Company's remuneration policy will apply to new Board members, who will be paid the equivalent amount of fees as current Board members holding similar roles.

Following shareholder approval, this policy took effect from the 2020 Annual General Meeting and is next scheduled for approval by shareholders by the Company's 2023 Annual General Meeting.

The components of the remuneration package for non-executive Directors, which are comprised in the Directors' remuneration policy of the Company, are set out below with a description and approach to determination:

### Remuneration Type - Fixed Fees

The fees for the Board as a whole are limited to £250,000 per annum in accordance with the Prospectus, divided between the Directors as they may determine.

Annual fees are set to reflect the experience of each Board member and the time commitment required by Board members to carry out their duties and is determined with reference to the appointment of Directors of similar investment companies.

Directors do not participate in discussions relating to their own fee.

### Remuneration Type - Additional Fees

Additional fees may be paid to any Director who fulfils the role of Chairman, who chairs any committee of the Board or who is appointed Senior Independent Director. Such fees will be set at a competitive level to reflect experience and time commitment.

Board members are entitled to such fees as they may determine in respect of any extra or special services performed by them, having been called upon to do so. Such fees would be determined at the Board's absolute discretion and would be set at a similar rate to other comparable investment companies who have undertaken equivalent activities.

### Remuneration Type - Expenses

The Directors are entitled to be paid all expenses properly incurred by them in attending meetings with shareholders or other Directors or otherwise in connection with the discharge of their duties as Directors.

### Remuneration Type - Other

Board members are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other non-cash benefits or taxable expenses.

## VOTING AT ANNUAL GENERAL MEETING

The Directors' Remuneration Report for the year ended 31 December 2019 and the Directors' Remuneration Policy were approved by shareholders at the Annual General Meeting held on 26 June 2020 were as follows:

	Directors' Remuneration Report		Directors' Remuneration Policy	
	Number of Votes	% of Votes Cast	Number of Votes	% of Votes Cast
For	26,934,019	99.99	26,934,019	99.99
Against	2,875	0.01	2,875	0.01
<b>Total votes cast</b>	<b>26,936,894</b>	<b>100</b>	<b>26,936,894</b>	<b>100</b>
Number of votes withheld	-	-	-	-

The Directors' remuneration report, excluding the implementation of the Directors' remuneration policy, is subject to an annual advisory vote via an ordinary resolution. An advisory vote is a non-binding 'advisory' resolution. In the event that shareholders vote against the 'advisory' resolution, the Board will be required to put its remuneration policy to shareholders for approval at the next AGM, regardless of whether the remuneration policy was approved by shareholders. The votes cast at the 2021 AGM on the advisory resolutions will be disclosed in the remuneration report for the year to 31 December 2021.

## DIRECTORS' FEES (AUDITED)

Single total aggregate Directors' remuneration for the year under review was £178,000 (2019: £131,834). The Directors who served during the year under review received the following emoluments:

Director	Fixed Fees paid during the year <sup>(1)</sup>	Variable Fees paid during the year <sup>(1)</sup>	Taxable benefits	Non-taxable benefits	31 December 2020	31 December 2019
Robert Sharpe (Chair)	£48,000	£15,000	-	-	£63,000	£47,500
Jim Coyle	£45,000	£15,000	-	-	£60,000	£44,667
Richard Rowney <sup>(2)</sup>	£40,000	£15,000	-	-	£55,000	£20,000
Ravi Takhar <sup>(3)</sup>	-	-	-	-	-	£19,667
<b>Total</b>	<b>£133,000</b>	<b>£45,000</b>	<b>-</b>	<b>-</b>	<b>£178,000</b>	<b>£131,834</b>

(1) Fees paid to the Directors during the year under review does not include any employment taxes or valid business expenses.

(2) Richard Rowney was appointed on 1 July 2019

(3) Ravi Thakar resigned from his position on 6 June 2019

No payments were made to past Directors for loss of office. In the absence of further major increases in the workload and responsibility involved, the Board does not expect fees to increase significantly over the next three years. The overall remuneration of each Director will continue to be monitored by the Board, taking into account those matters referred to in the annual statement above. The Company did not pay any other benefits including bonuses, pension benefits, share options, long-term incentive schemes or other non-cash benefits or taxable benefits.

The Company has not made any loans to the Directors, nor has it ever provided any guarantees for the benefit of any Director or the Directors collectively nor does it intend to.

### Company Performance

The Board is responsible for the Company's investment strategy and performance, although day-to-day management of the Company's affairs, including the management of the Company's portfolio, has been delegated to third-party service providers. An explanation of the performance of the Company is given in the Chairman's statement above and Investment Manager's Report above.

## EXPENDITURE BY THE COMPANY ON DIRECTORS' REMUNERATION COMPARED WITH DISTRIBUTIONS TO SHAREHOLDERS

The following table is provided in accordance with The Small and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 which sets out the relative importance of spend on pay in respect of the year ended 31 December 2020. The table shows the remuneration paid to Directors for the year under review, compared to the distribution payments to shareholders.

	31 December 2020 £'000	31 December 2019 £'000
<b>Total remuneration paid to Directors</b>	178	132
<b>Shareholder distributions – dividends or share buybacks</b>	63,830	31,560

### DIRECTORS' INTERESTS (AUDITED)

The Company does not have any requirement for any Director to own shares in the Company.

As at 31 December 2020, the Directors do not hold shares in the Company (31 December 2019: None). On 1 January 2021, Joanne Lake was appointed to the Board. She had acquired 2,659 shares in the Company prior to entering discussions with the Company about the role as non-executive director.

There have been no changes to any holdings between 31 December 2020 and the date of this report.

## APPROVAL OF THE ANNUAL REPORT ON REMUNERATION AND THE DIRECTORS' REMUNERATION POLICY

The Annual Report on remuneration was approved by the Board on 29 April 2021 and signed on behalf of the Board by:

**Robert Sharpe**

Chairman of the Remuneration and Nomination Committee  
29 April 2021

### Management Report and Statement of Directors' Responsibilities

Listed companies are required by the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (the "Rules") to include a management report in their annual Financial statements. The information required to be in the management report for the purpose of the Rules is included in the Chairman's Statement, the Investment Manager's Report, Top Ten Holdings, Portfolio composition, the Business Review and the Directors' Report. Therefore, a separate management report has not been included.

### DIRECTORS' RESPONSIBILITIES STATEMENT IN RELATION TO THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with both international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The Directors are also required to prepare a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they present a fair, balanced and understandable report and provide the information necessary for shareholders to assess the Company's performance, business model and strategy. In preparing the Financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the Financial position of the Group and Company and enable them to ensure that the Group and Company's Financial statements and Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### Responsibility Statements under the Disclosure Guidance and Transparency Rules

Each of the Directors confirms that to the best of his or her knowledge:

- the Group and Company's Financial statements, prepared in accordance with IFRS as issued by the IASB in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Strategic Report (comprising the Chairman's Statement, Investment Manager's Report, top ten largest Holdings, Analysis of Investment Portfolio by Sector and Business Model and Strategy) and the Directors' Report include a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces;

- taken as a whole, the Annual Report and Financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- the financial statements include details on related party transactions; and
- having assessed the principal risks and other matters discussed in connection with the Viability Statement, it is appropriate to adopt the going concern basis in preparing the Financial statements.

The Annual Report and Financial Statements were approved by the Board and the above responsibility statement was signed on its behalf by:

**Robert Sharpe**  
Chairman  
29 April 2021

## Financial Statements

### Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Notes	For the year ended 31 December 2020			For the year ended 31 December 2019		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Net Income</b>							
Interest Income on credit assets at amortised cost	5	54,970	-	54,970	62,697	-	62,697
Income / (Loss) on equity assets at fair value through profit and loss	12	-	(375)	(375)	-	30	30
Income/(Loss) on credit assets at fair value through profit and loss	13	-	775	775	-	-	-
Credit impairment losses	11	(5,581)	-	(5,581)	(7,372)	-	(7,372)
Third party servicing		(3,918)	-	(3,918)	(3,739)	-	(3,739)
<b>Net operating income/expense before financing and fund costs</b>		<b>45,471</b>	<b>400</b>	<b>45,871</b>	<b>51,586</b>	<b>30</b>	<b>51,616</b>
Finance costs	19	(14,323)	-	(14,323)	(8,417)	-	(8,417)
<b>Net operating income/expense before fund costs</b>		<b>31,148</b>	<b>400</b>	<b>31,548</b>	<b>43,169</b>	<b>30</b>	<b>43,199</b>
Management fee	6	(5,823)	(119)	(5,942)	(5,971)	(95)	(6,066)
Performance fee	6	(2,300)	-	(2,300)	(3,468)	-	(3,468)
Fund expenses	7	(2,605)	-	(2,605)	(2,454)	-	(2,454)
<b>Total operating expenses</b>		<b>(10,728)</b>	<b>(119)</b>	<b>(10,847)</b>	<b>(11,893)</b>	<b>(95)</b>	<b>(11,988)</b>
<b>Profit / (loss) before taxation</b>		<b>20,420</b>	<b>281</b>	<b>20,701</b>	<b>31,276</b>	<b>(65)</b>	<b>31,211</b>
Tax expense	8	-	-	-	-	-	-
<b>Profit / (loss) after taxation</b>		<b>20,420</b>	<b>281</b>	<b>20,701</b>	<b>31,276</b>	<b>(65)</b>	<b>31,211</b>
<b>Earnings per share (basic and diluted)</b>	9	<b>55.7p</b>	<b>0.8p</b>	<b>56.5p</b>	<b>79.3p</b>	<b>(0.2)p</b>	<b>79.1p</b>

The total column of this statement represents the Statement of comprehensive income prepared in accordance with both international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The supplementary revenue return and capital return columns are both prepared under guidance issued by the Association of Investment Companies ("AIC"). All items in the above statement derive from continuing operations.

No operations were discontinued during the year.

The Company does not have any income or expense that is not included in net profit for the year. Accordingly, the net profit for the year is also the Total Comprehensive Income for the year, as defined in IAS1 (revised). There is no other comprehensive income for the year.

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

## Consolidated Statement of Financial Position

### As at 31 December 2020

	Notes	31 December 2020 £'000	31 December 2019 £'000
<b>Non-current assets</b>			
Equity assets held at fair value through profit or loss	12	14,959	8,390
Credit assets at amortised cost	11	547,737	580,998
Credit assets held at fair value through profit or loss	13	5,905	-
Derivative assets held at fair value through profit or loss	14	21	-
Fixed assets	16	-	41
		<b>568,622</b>	<b>589,429</b>
<b>Current assets</b>			
Cash and cash equivalents		62,548	15,154
Receivables	17	6,773	8,875
		<b>69,321</b>	<b>24,029</b>
<b>Total assets</b>		<b>637,943</b>	<b>613,458</b>
<b>Current liabilities</b>			
Management fee payable	6	(1,040)	(511)
Performance fee payable	6	(2,300)	(3,468)
Other payables	18	(3,832)	(2,326)
Interest bearing borrowings	19	(20,865)	(130,741)
		<b>(28,037)</b>	<b>(137,046)</b>
<b>Total assets less current liabilities</b>		<b>609,906</b>	<b>476,412</b>
<b>Non-current liabilities</b>			
Interest bearing borrowings	19	(252,674)	(76,051)
<b>Net assets</b>		<b>357,232</b>	<b>400,361</b>
<b>Shareholders' funds</b>			
Ordinary share capital	21	352	394
Share premium		299,599	299,599
Revenue reserves		1,185	5,270
Capital reserves		(749)	(1,030)
Special distributable reserves	22	56,845	96,128
<b>Total shareholders' funds</b>		<b>357,232</b>	<b>400,361</b>
<b>Net asset value per share</b>	25	<b>1,013.1p</b>	<b>1,014.9p</b>

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

The financial statements were approved by the Board of Directors of Honeycomb Investment Trust plc (a public limited company incorporated in England and Wales with company number 09899024) and authorised for issue on 29 April 2021. They were signed on its behalf by:

**Robert Sharpe, Chairman**

## Company Statement of Financial Position

### As at 31 December 2020

	Notes	31 December 2020 £'000	31 December 2019 £'000
<b>Non-current assets</b>			
Equity assets held at fair value through profit or loss	12	14,959	12,883
Credit assets at amortised cost	11	547,737	580,998
Credit assets held at fair value through profit or loss	13	5,905	-
Derivative assets held at fair value through profit or loss	14	21	-
Fixed assets	16	-	41
		<b>568,622</b>	<b>593,922</b>
<b>Current assets</b>			
Cash and cash equivalents		59,673	13,251
Receivables	17	6,773	8,325
		<b>66,446</b>	<b>21,576</b>
<b>Total assets</b>		<b>635,068</b>	<b>615,498</b>
<b>Current liabilities</b>			
Management fee payable	6	(1,040)	(511)
Performance fee payable	6	(2,300)	(3,468)
Other payables	18	(3,429)	(1,805)
Interest bearing borrowings	19	(73)	(130,741)
		<b>(6,842)</b>	<b>(136,525)</b>
<b>Total assets less current liabilities</b>		<b>628,226</b>	<b>478,973</b>
<b>Non-current liabilities</b>			
Deemed loan	20	(103,719)	(78,612)
Interest bearing borrowings	19	(167,275)	-
<b>Net assets</b>		<b>357,232</b>	<b>400,361</b>
<b>Shareholders' funds</b>			
Ordinary share capital	21	352	394
Share premium		299,599	299,599
Revenue reserves		1,185	5,270
Capital reserves		(749)	(1,030)
Special distributable reserves	22	56,845	96,128
<b>Total shareholders' funds</b>		<b>357,232</b>	<b>400,361</b>
<b>Net asset value per share</b>	25	<b>1,013.1p</b>	<b>1,014.9p</b>

Advantage has been taken of the exemption under section 408 of the Companies Act 2006 and accordingly the Company has not presented a Statement of Comprehensive Income for the Company alone. The profit on ordinary activities after taxation of the Company for the year ended 31 December 2020 was £20.7 million (2019: £31.2 million).

The financial statements were approved by the Board of Directors of Honeycomb Investment Trust plc (a public limited company incorporated in England and Wales with company number 09899024) and authorised for issue on 29 April 2021. They were signed on its behalf by:

**Robert Sharpe, Chairman**

## Consolidated Statement of Changes in Shareholders' Funds

### For the year ended 31 December 2020

	Ordinary Share Capital £'000	Share Premium £'000	Revenue Reserves £'000	Capital Reserves £'000	Special Distributable Reserves £'000	Total Equity £'000
Shareholders' funds at 1 January 2020	394	299,599	5,270	(1,030)	96,128	400,361

Ordinary shares bought back	(42)	-	-	-	(34,783)	<b>(34,825)</b>
Profit / (loss) after taxation	-	-	20,420	281	-	<b>20,701</b>
Dividends paid in the year	-	-	(24,505)	-	(4,500)	<b>(29,005)</b>
<b>Shareholders' funds at 31 December 2020</b>	<b>352</b>	<b>299,599</b>	<b>1,185</b>	<b>(749)</b>	<b>56,845</b>	<b>357,232</b>

The Group's capital reserve arising on investments sold and revenue reserve may be distributed by way of a dividend. The portion of capital reserve arising on investments held is wholly non-distributable. There may be factors that restrict the value of the reserves that can be distributed and these factors may be complex to determine. Amounts fully distributable may therefore not be the total of the revenue reserve and the portion of the capital reserve arising on investments sold.

#### For the year ended 31 December 2019

	Ordinary Share Capital £'000	Share Premium £'000	Revenue Reserves £'000	Capital Reserves £'000	Special Distributable Reserves £'000	Total Equity £'000
<b>Shareholders' funds at 1 January 2019</b>	<b>394</b>	<b>299,599</b>	<b>4,934</b>	<b>(965)</b>	<b>96,748</b>	<b>400,710</b>
Profit / (loss) after taxation	-	-	31,276	(65)	-	<b>31,211</b>
Dividends paid in the year	-	-	(30,940)	-	(620)	<b>(31,560)</b>
<b>Shareholders' funds at 31 December 2019</b>	<b>394</b>	<b>299,599</b>	<b>5,270</b>	<b>(1,030)</b>	<b>96,128</b>	<b>400,361</b>

The Group's capital reserve arising on investments sold and revenue reserve may be distributed by way of a dividend. The portion of capital reserve arising on investments held is wholly non-distributable. There may be factors that restrict the value of the reserves that can be distributed and these factors may be complex to determine. Amounts fully distributable may therefore not be the total of the revenue reserve and the portion of the capital reserve arising on investments sold.

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

### Company Statement of Changes in Shareholders' Funds

#### For the year ended 31 December 2020

	Ordinary Share Capital £'000	Share Premium £'000	Revenue Reserves £'000	Capital Reserves £'000	Special Distributable Reserves £'000	Total Equity £'000
<b>Shareholders' funds at 1 January 2020</b>	<b>394</b>	<b>299,599</b>	<b>5,270</b>	<b>(1,030)</b>	<b>96,128</b>	<b>400,361</b>
Ordinary shares bought back	(42)	-	-	-	(34,783)	<b>(34,825)</b>
Profit / (loss) after taxation	-	-	20,420	281	-	<b>20,701</b>
Dividends paid in the year	-	-	(24,505)	-	(4,500)	<b>(29,005)</b>
<b>Shareholders' funds at 31 December 2020</b>	<b>352</b>	<b>299,599</b>	<b>1,185</b>	<b>(749)</b>	<b>56,845</b>	<b>357,232</b>

The Company's capital reserve arising on investments sold and revenue reserve may be distributed by way of a dividend. The portion of capital reserve arising on investments held is wholly non-distributable. There may be factors that restrict the value of the reserves that can be distributed and these factors may be complex to determine. Amounts fully distributable may therefore not be the total of the revenue reserve and the portion of the capital reserve arising on investments sold.

## For the year ended 31 December 2019

	Ordinary Share Capital £'000	Share Premium £'000	Revenue Reserves £'000	Capital Reserves £'000	Special Distributable Reserves £'000	Total Equity £'000
<b>Shareholders' funds at 1 January 2019</b>	<b>394</b>	<b>299,599</b>	<b>4,934</b>	<b>(965)</b>	<b>96,748</b>	<b>400,710</b>
Profit / (loss) after taxation	-	-	31,276	(65)	-	<b>31,211</b>
Dividends paid in the year	-	-	(30,940)	-	(620)	<b>(31,560)</b>
<b>Shareholders' funds at 31 December 2019</b>	<b>394</b>	<b>299,599</b>	<b>5,270</b>	<b>(1,030)</b>	<b>96,128</b>	<b>400,361</b>

The Company's capital reserve arising on investments sold and revenue reserve may be distributed by way of a dividend. The portion of capital reserve arising on investments held is wholly non-distributable. There may be factors that restrict the value of the reserves that can be distributed and these factors may be complex to determine. Amounts fully distributable may therefore not be the total of the revenue reserve and the portion of the capital reserve arising on investments sold.

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

## Consolidated Statement of Cash Flows

### For the year ended 31 December 2020

	Notes	31 December 2020 £'000	31 December 2019 £'000
<b>Cash flows from operating activities:</b>			
Profit after taxation		20,701	31,211
Adjustments for:			
Change in expected credit loss	11	5,581	7,372
Net change in unrealised (gains)/losses	12, 13	(1,155)	(30)
Finance costs		14,323	8,418
Amortisation	16	41	176
(Increase) / decrease in receivables	17	2,102	(5,500)
(Increase) / decrease in derivatives	14	(21)	-
Increase in payables	18	867	617
<b>Net cash inflow from operating activities</b>		<b>42,439</b>	<b>42,264</b>
<b>Cash flows from investing activities:</b>			
Net sale/(purchase) of investments at amortised cost		18,982	(11,840)
Purchase of equity investments	12	-	(380)
Sale of equity investments	12	-	2,000
Purchase of fair value credit investments	13	(2,621)	-
<b>Net cash inflow / (outflow) from investing activities</b>		<b>16,361</b>	<b>(10,220)</b>
<b>Cash flows from financing activities:</b>			
Redemption of shares	22	(34,825)	-
Drawdown of interest bearing borrowings	19	359,648	272,463
Repayments of interest-bearing borrowings	19	(289,013)	(255,517)
Interest paid on financing activities	19	(18,211)	(7,835)
Dividends declared and paid	10	(29,005)	(31,560)
<b>Net cash (outflow) from financing activities</b>		<b>(11,406)</b>	<b>(22,449)</b>
<b>Net change in cash and cash equivalents</b>		<b>47,394</b>	<b>9,595</b>
Cash and cash equivalents at the beginning of the year		15,154	5,559
<b>Cash and cash equivalents</b>		<b>62,548</b>	<b>15,154</b>

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

## Company Statement of Cash Flows

For the year ended 31 December 2020

Notes	31 December 2020 £'000	31 December 2019 £'000
<b>Cash flows from operating activities:</b>		
Profit after taxation	20,701	31,211
Adjustments for:		
Change in expected credit loss	11	5,581
Net change in unrealised (gains)/losses	12, 13	3,338
Finance costs	12,042	7,449
Amortisation	16	41
(Increase) / Decrease in receivables	17	1,552
(Increase) / Decrease in derivatives	14	(21)
Increase in payables	18	985
<b>Net cash inflow from operating activities</b>	<b>44,219</b>	<b>36,831</b>
<b>Cash flows from investing activities:</b>		
Net Sale/(Purchase) of Investments at amortised cost	18,982	(11,840)
Purchase of equity investments	12	-
Sale of equity investments	12	-
Purchase of fair value credit investments	13	(2,621)
(Purchase) / receipt from deemed loans	20	25,107
<b>Net cash inflow / (outflow) from investing activities</b>	<b>41,468</b>	<b>68,393</b>
<b>Cash flows from financing activities:</b>		
Redemption of shares	22	(34,825)
Drawdown of interest bearing borrowings	19	312,500
Repayments of interest-bearing borrowings	19	(272,752)
Interest paid on financing activities	19	(15,183)
Dividends declared and paid	10	(29,005)
<b>Net cash (outflow) from financing activities</b>	<b>(39,265)</b>	<b>(97,532)</b>
<b>Net change in cash and cash equivalents</b>	<b>46,422</b>	<b>7,692</b>
Cash and cash equivalents at the beginning of the year	13,251	5,559
<b>Cash and cash equivalents</b>	<b>59,673</b>	<b>13,251</b>

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

## Notes to the Financial Statements

### 1. PRINCIPAL ACCOUNTING POLICIES

#### Basis of accounting

The financial statements have been prepared in accordance with both international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. . They comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and International Financial Reporting Committee, including interpretations issued by the IFRS Interpretations Committee and interpretations issued by the International Accounting Standard Committee ("IASC") that remain in effect.

The financial statements have been prepared on a going concern basis and under the historic cost convention modified by the revaluation of financial assets held at fair value through profit and loss as applicable. The Directors consider that the Group has adequate financial resources to enable it to continue operations for a period of no less than 12 months from the reporting date. In order to reach this conclusion the Directors have reviewed the financial projections of the Group from the date of this report, which shows that the Group will be able to generate sufficient cash flows in order to meet its liabilities as they fall due. These financial projections have been performed under various origination volumes and stressed scenarios and in all cases the Group is able to meet its liabilities as they fall due. The stressed scenarios considered included no future originations by the Group, late repayments of significant structured facilities and individual exposures experiencing ongoing performance at the worst monthly impact noted throughout 2020; which incorporated one-off macro-economic charges for Covid-19. As part of these projections the Directors have also reviewed any financial and non-financial covenants in place under all debt facilities in place with no breaches anticipated, even in our most stressed scenario. Although there is a requirement to put a special resolution for the discontinuation of the Company at the 2021 AGM, based on the current position, performance and prospects of the Company the Directors have no reason to believe that shareholders will vote for discontinuation. As a special resolution, 75% of shareholders would be required to vote for discontinuation and the Directors do not believe this high threshold will be met. The Directors also note that, even if there was to be a vote for discontinuation at the 2021 AGM, the Company would be likely to continue to operate for a period thereafter, due to the Company's investments not comprising readily realisable securities. Accordingly, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

The principal accounting policies adopted by the Company and Group are set out below. Where presentational guidance set out in the Statement of Recommended Practice ("SORP") for investment trusts issued by the Association of Investment Companies ("AIC") in July 2018 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

All values are rounded to the nearest thousand pounds unless otherwise indicated.

### **Changes to Accounting Policies**

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but were not yet effective:

#### **Accounting standards effective**

##### **IFRS 3 Amendments regarding the definition of a business**

The IASB has issued 'Definition of a Business (Amendments to IFRS 3)' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.

The amendments and interpretations do not have a material impact on the financial statements as the Company has not acquired any groups of assets open to such interpretation. The subsidiary entities consolidated in the Group's financial statements are through 100% share ownership or exposure to the variable returns of the vehicle through the holding of a junior note issued by it.

#### **Accounting standards issued but not yet effective**

##### **IFRS 17 Insurance Contract**

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2023.

The Directors do not anticipate that the adoption of this standard and interpretations will have a material impact on the financial statements, given the nature of the Group's business being that it has no insurance contracts.

Other future developments include the IASB undertaking a comprehensive review of existing IFRSs. The Group will consider the financial impact of these new standards as they are finalised.

## Accounting Policies

### Consolidation

Subsidiaries are investees controlled by the Company. The Company controls an investee if it is exposed to, or has the rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company reassesses whether it has control if there are changes to one or more elements of control. Subsidiaries are valued at fair value. The Company does not consider itself to be an investment entity for the purposes of IFRS 10, as it does not hold substantially all of its investments at fair value. Consequently, it consolidates its subsidiaries rather than holding at fair value through profit or loss. At the Company level, the Company's investments in its subsidiaries are measured at fair value which is determined with reference to the underlying net asset value of the subsidiary.

On 20 June 2019 the Group incorporated Sting Funding Limited ("Sting"), a limited Company incorporated under the law of England and Wales. Sting became active on 28 August 2019 when it drew down on a debt facility backed by commercial and second charge residential mortgages. The company is registered at 1 Bartholomew Lane, London, United Kingdom, EC2N 2AX. The Group is considered to control Sting through holding 100 per cent of the issued shares. As a result, the financial statements for the year ended 31 December 2019 and 31 December 2020 are prepared on a consolidated basis.

Due to the nature of Sting, whereby the credit facility is guaranteed by the investments within Sting this constitutes as a restriction on the Group's ability to access or use the assets and settle the liabilities of the Group. There is a restricted ability on the Group to transfer cash or other assets from Sting to the Group.

The Company also controls Bud Funding Limited ("Bud"), a private limited company incorporated with limited liability under the Law of England and Wales. The Company is considered to control the entity since 2 December 2020, by virtue of having exposure to the variable returns of the vehicle through the holding of a junior note issued by it and because the Company exercises control over Bud through its involvement in the initial creation of Bud and in the absence of another entity now having control over Bud.

In the consolidated financial statements, intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing consolidated financial statements.

All entities within the Group have co-terminus reporting dates.

### Foreign Currency

The financial statements are prepared in Pounds Sterling because that is the currency of the majority of the transactions during the year, so has been selected as the presentational currency.

The primary objective of the Group is to generate returns in Pounds Sterling, its capital-raising currency. The liquidity of the Group is managed on a day-to-day basis in Pounds Sterling as the Group's performance is evaluated in that currency. Therefore, the Directors consider Pounds Sterling as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions and is therefore the functional currency.

Transactions involving foreign currencies are converted at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated into Pounds Sterling at the exchange rate ruling on the year-end date. Foreign exchange differences arising on translation would be recognised in the Statement of Comprehensive Income.

### Presentation of the Statement of Comprehensive Income

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income.

In respect of the analysis between revenue and capital items presented within the Statement of Comprehensive Income, all expenses and finance costs, which are accounted for on an accruals basis, have been presented as revenue items except those items listed below:

- Expenses are allocated to capital where a direct connection with the maintenance or enhancement of the value of the investments can be demonstrated; and
- Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.

The following are presented as capital items:

- Gains and losses on the realisation of capital investments;
- Increases and decreases in the valuation of capital investments held at the 31 December 2019 and 31 December 2020;
- Realised and unrealised gains and losses on transactions undertaken to hedge an exposure of a capital nature;
- Realised and unrealised exchange differences of a capital nature; and
- Expenses, together with the related taxation effect, allocated to capital in accordance with the above policies.

### **Income**

Interest from loans are recognised in the Statement of Comprehensive Income for all instruments measured at amortised cost using the effective interest rate method ("EIRM").

The EIRM is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group takes into account all contractual terms of the financial instrument, for example prepayment options, but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees and commissions which are not considered integral to the EIRM and deposit interest income are recognised on an accruals basis when the service has been provided or received.

Dividend income from investments is recognised when the Group's right to receive payment has been established, normally the ex-dividend date.

### **Expenses**

All expenses are accounted for on the accrual basis. In respect of the analysis between revenue and capital items presented within the Statement of Comprehensive Income, all expenses have been presented as revenue items except as follows:

- Transaction costs which are incurred on the purchases or sales of Equity Assets designated as fair value through profit or loss are expensed to capital in the Statement of Comprehensive Income; and
- Expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the equity investments held can be demonstrated and, accordingly, the management fee for the financial year has been allocated 98.0 per cent to revenue and 2.0 per cent to capital (being the management fee percentage applied to the Equity Assets throughout the financial year), in order to reflect the Directors' long-term view of the nature of the expected investment returns of the Group.

### **Finance costs**

Finance costs are accrued on the effective interest rate basis. Since these costs are considered to be an indirect cost of maintaining the value of investments they are allocated in full to revenue.

### **Shares**

Ordinary and treasury shares are classified as equity. The costs of issuing or acquiring equity are recognised in equity (net of any related income tax benefit), as a reduction of equity on the condition that these are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

The costs of an equity transaction that is abandoned are recognised as an expense. Those costs might include registration and other regulatory fees, legal fees, accounting and other professional advisers, printing costs and stamp duties.

Treasury shares have no entitlements to vote and are held directly by the Company.

### **Capital reserves**

Capital reserves arise from:

- Gains or losses on disposal of equity investments during the year
- Increases and decreases in the valuation of equity investments held at the year end
- Other capital charges and credits charged to this account in accordance with the accounting policies above or as applied to the capital column of the Consolidated Statement of Comprehensive Income, prepared under guidance issued by the Associated of Investment Companies.

All of the above are accounted for in the Consolidated Statement of Comprehensive Income. Any other gains or losses, charges or credits from investments still held or otherwise are included in the revenue reserves.

## **Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on the taxable profit for the year. The taxable profit differs from profit before tax as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using a blended rate as applicable throughout the year.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Statement of Comprehensive Income is the 'marginal basis'. Under this basis, if taxable income is capable of being entirely offset by expenses in the revenue column of the statement of comprehensive income, then no tax relief is transferred to the capital return column.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the Statement of Financial Position liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised. Deferred tax is charged or credited in the revenue return column of the Statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Investment trusts which have approval under Section 1158 of the Corporation Tax Act 2010 are not liable for taxation on capital gains. The Company has been approved as an Investment Trust by HMRC and continues to monitor itself against the conditions required to satisfy the investment trust criteria, including but not limited to making sufficient interest distributions.

Where additional SPVs are created these are structured in such a way that they either make no profit and as such pay no tax or that they are exempt from taxation.

Irrecoverable withholding tax is recognised on any overseas dividends on an accruals basis using the applicable rate for the country of origin.

## **Credit assets at amortised cost**

Loans are initially recognised at a carrying value equivalent to the funds advanced to the borrower plus the costs of acquisition such as broker and packaging fees. After initial recognition loans are subsequently measured at amortised cost using the effective EIRM less expected credit losses (see Note 11 to the financial statements).

## **Investments held at fair value through profit or loss**

All investments held by the Group which have been designated at fair value through profit or loss ("FVTPL") but are also described in these financial statements as investments held at fair value and are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines ("IPEVCV") effective 1 January 2019 and updated in March 2020 as recommended by the British Private Equity and Venture Capital Association.

Purchases and sales of unquoted investments are recognised when the contract for acquisition or sale becomes unconditional.

## **Fixed assets**

Fixed assets are shown at cost less accumulated depreciation. Depreciation is calculated by the Group on a straight-line basis by reference to the original cost, estimated useful life and residual value. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. The period of estimated useful life for this purpose is one to three years. Residual values are assumed to be nil.

## **Receivables**

Receivables do not carry any interest and are short term in nature. They are initially stated at their nominal value and reduced by appropriate allowances for expected credit losses (if any). Given their short-term nature a lifetime ECL is not deemed necessary as expected life is less than a month.

## **Cash and cash equivalents**

Cash and cash equivalents (which are presented as a single class of asset on the Statement of Financial Position) comprise cash at bank and in hand and deposits with an original maturity of three months or less. The carrying value of these assets approximates their fair value.

## **Financial liabilities**

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

## **Payables**

Payables are non-interest bearing. They are initially stated at their nominal value.

## **Interest bearing borrowings**

Interest bearing borrowings are initially recognised at a carrying value equivalent to the proceeds received net of issue costs associated with the borrowings. After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the effective interest rate method.

## **Dividends**

Interim dividends to shareholders are recognised in the year in which they are paid.

## **Associates**

Associates are entities over which the Company has significant influence, but does not control, generally accompanied by a shareholding of between 20 per cent and 50 per cent of the voting rights.

No associates are presented on the Statement of Financial Position as the Group elects to hold such investments at fair value through profit and loss. This treatment is permitted by IAS 28 Investment in Associates and Joint Ventures, which permits investments held by entities that are venture capital organisations, mutual funds or similar entities to be excluded from its measurement methodology requirements where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IFRS 9. All associate investments held by the Company are for capital appreciation where such an opportunity has arisen, as opposed to being extensions of the Company's business, and have been designated as at fair value through profit or loss upon initial recognition. Changes in fair value of associates are recognised in the Statement of Comprehensive Income in the period in which the change occurs.

The disclosures required by Section 409 of the Companies Act 2006 for associated undertakings are included in Note 24 to the financial statements.

## **Classification and measurement**

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument. The Group shall offset financial assets and financial liabilities if it has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis. Financial assets and liabilities are derecognised when the Group settles its obligations relating to the instrument.

IFRS 9 contains a classification and measurement approach for debt instruments that reflects the business model in which assets are managed and their cash flow characteristics. This is a principle-based approach and applies one classification approach for all types of debt instruments. For debt instruments two criteria are used to determine how financial assets should be classified and measured:

- The entity's business model (i.e. how an entity manages its debt Instruments in order to generate cash flows by collecting contractual cash flows, selling financial assets or both); and
- The contractual cash flow characteristics of the financial asset (i.e. whether the contractual cash flows are solely payments of principal and interest).

A debt instrument is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit and loss ("FVTPL"): (a) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and (b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at fair value through other comprehensive income ("FVOCI") if it meets both of the following conditions and is not designated as at FVTPL:

(a) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

(b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Movements in the carrying amount are taken through the Other Comprehensive Income ("OCI"), except for the recognition of expected credit losses, interest revenue and foreign exchange gains and losses on the investments at amortised cost which is recognised in the Consolidated Statement of Comprehensive Income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the Consolidated Statement of Comprehensive Income and recognised in 'Income'. Interest income from these financial assets is included in 'Income' using the EIRM. No assets have been classified at FVOCI as at 31 December 2019 or 31 December 2020.

Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss. This election is made on an investment by investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. All equity positions are measured at FVTPL. Financial assets measured at FVTPL are recognised in the balance sheet at their fair value. Fair value gains and losses together with interest coupons and dividend income are recognised in the income statement within net trading income in the period in which they occur. The fair values of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market is not active the Group establishes a fair value by using valuation techniques. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

### **Business model assessment**

The Group assesses the objective of the business model in which a financial asset is held at a portfolio level in order to generate cash flows because this best reflects the way the business is managed, and information is provided to the Investment Manager. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these are applicable, then the financial assets are classified as part of the other business model and measured at FVTPL.

The information that is considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice, including whether the strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- Past experience on how the cash flows for these assets were collected;
- How the performance of the portfolio is evaluated and reported to the Investment Manager;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Investment Manager's stated objective for managing the financial assets is achieved and how cashflows are realised.

### **Assessment whether contractual cash flows are solely payments of principal and interest**

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a reasonable profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the contractual terms of the instrument are considered. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment the following features are considered:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets, e.g. non-recourse asset arrangements; and
- Features that modify consideration for the time value of money, e.g. periodic reset of interest rates.

## Deemed loans

The deemed loans are a non-derivative financial liability with fixed or determinable repayments that are not quoted in an active market. Deemed loans in relation to the Company arise from loans originated by the Company and subsequently sold to in a special purpose entity to reduce the cost of borrowing, in this case Sting Funding Limited and Bud Funding Limited. Although the loans are no longer legally owned by the Company, the Company maintains the economic risks and rewards of the underlying assets and therefore does not meet the criteria to derecognise. Derecognition cannot be achieved by merely transferring the legal title of a financial asset to another party. The substance of the arrangement must be assessed in order to determine whether an entity has transferred the economic exposure associated with the rights inherent in the asset.

Loans and related transaction costs are measured at initial recognition at fair value and are subsequently measured at amortised cost using the EIRM. International accounting standards ("IAS") makes it clear that assets should only appear on one statement of financial position. IFRS require a reporting entity, as part of the derecognition assessment, to consider whether the transfer includes a transfer to a consolidated subsidiary. Derecognition cannot be achieved by merely transferring the legal title to a financial asset to another party. The substance of the arrangement must be assessed in order to determine whether an entity has transferred the economic exposure associated with the rights inherent in the asset (i.e., its risks and rewards) and, in some cases, control of those rights.

In the case of the Company, it has not met the requirements of derecognition in relation to the deemed loans given the economic exposure associated with the rights inherent in the assets (i.e., its risks and rewards), have been retained. As such the Company fails to meet the requirements for derecognition and continues to recognise the financial assets and as such has a deemed loans liability to the to the relevant special purpose entity. At a consolidated Group level, the deemed liability is eliminated.

## Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at FVTPL. Gains and losses on equity investments at FVTPL are included in the 'Income' line in the Statement of Comprehensive Income.

## Expected Credit loss allowance for financial assets measured at amortised cost

The impairment charge in the income statement includes the change in expected credit losses which are recognised for loans and advances to customers, other financial assets held at amortised cost and certain loan commitments.

IFRS 9 applies a single impairment model to all financial instruments subject to impairment testing. Impairment losses are recognised on initial recognition, and at each subsequent reporting period, even if the loss has not yet been incurred. In addition to past events and current conditions, reasonable and supportable forecasts affecting collectability are also considered when determining the amount of impairment in accordance with IFRS 9. Under IFRS 9 expected credit loss model expected credit losses are recognised at each reporting period, even if no actual loss events have taken place. In addition to past events and current conditions, reasonable and supportable forward-looking information that is available without undue cost or effort is considered in determining impairment, with the model applied to all financial instruments subject to impairment testing.

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3. Stage 2 and Stage 3 are based on lifetime expected credit losses.

The measurement of ECLs is primarily based on the product of the instrument's probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD"), taking into account the value of any collateral held or other mitigants of loss and including the impact of discounting using the effective interest rate.

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months ("12M PD"), or over the remaining lifetime ("Lifetime PD") of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months ("12M EAD") or over the remaining lifetime ("Lifetime EAD"). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current

contractual limit by the time of default, should it occur. The EAD is discounted back to the reporting date using the effective interest rate ("EIR") determined at initial recognition.

- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The estimated credit loss ("ECL") is determined by estimating the PD, LGD, and EAD for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original EIR or an approximation thereof. The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans.

The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band where supported by historical analysis. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This is also adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Company's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and price.

The main difference between Stage 1 and Stage 2 is the respective PD horizon. Stage 1 estimates use a maximum of a 12-month PD, while Stage 2 estimates use a lifetime PD. The main difference between Stage 2 and Stage 3 is Stage 3 is effectively the point at which there has been a default event. For financial assets in stage 3, entities continue to recognise lifetime ECL but now recognise interest income on a net basis. This means that interest income is calculated based on the gross carrying amount of the financial asset less ECL. Stage 3 estimates continue to leverage existing processes for estimating losses on impaired loans, however, these processes are updated to reflect the requirements of IFRS 9, including the requirement to consider multiple forward-looking scenarios using independent third-party economic information.

Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly relative to the date it was initially recognised. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

In assessing whether a borrower has had a significant increase in credit risk the following indicators are considered:

- Consumer
  - Short-term forbearance
  - Extension of terms granted
- Structured/SME/Property

- Significant increase in credit spread, where this information is available
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase the risk of default
- Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors

However, as a backstop, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when repayments are more than 30 days past due. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit impaired as at the reporting date. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. The Group uses this 90-day backstop for all its assets except for UK second mortgages, the Group has assumed a backstop of 180 days past due as mortgage exposures more than 90 days past due, but less than 180 days, typically show high cure rates and this aligns to the Group's risk management practices. Assets can move in both directions through the stages of the impairment model.

In assessing whether a borrower is credit impaired the following qualitative indicators are considered:

- Consumer
  - Long-term forbearance
  - Borrower deceased
  - Borrower insolvent
- Structured/SME/Property
  - Borrower in breach of financial covenants
  - Concessions have been made by the lender relating to the borrower's financial difficulty
  - Significant adverse changes in business, financial or economic conditions on which the borrower operates
  - Long term forbearance or restructuring.

The following quantitative indicators are also considered

- The remaining lifetime PD at the reporting date has increased, compared to the residual lifetime PD expected at the reporting date when the exposure was first recognised; and
- Based on data developed internally and obtained from external sources.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Group's expected credit loss calculations.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Under IFRS 9, when determining whether the credit risk (i.e. the risk of default) on a financial instrument has increased significantly since initial recognition, reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on historical experience, credit assessment and forward-looking information.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forward-looking information. A 'Base case' view of the future direction of relevant economic variables and a representative range of other possible forecasts scenarios have been developed. The process has involved developing two additional economic scenarios and considering the relative probabilities of each outcome.

The base case represents a most likely outcome and is aligned with information used for other purposes, such as strategic planning and budgeting. The number of scenarios and their attributes are reassessed at each reporting date. At 31 December 2020 as well as 31 December 2019, all the portfolios of the Group use one positive, more optimistic and one downside, more pessimistic outcomes. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

The estimation and application of forward-looking information requires significant judgement. PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances, are modelled and adjusted based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. The Group has utilised macroeconomic scenarios prepared and provided by Oxford Economics ("Oxford").

Oxford combines two decades of forecast errors with the quantitative assessment of the current risks facing the global and domestic economy to produce robust forward-looking distributions for the economy. Oxford construct 3 alternative scenarios at specific percentile points in the distribution. In any distribution, the probability of a given discrete scenario is close to zero. Therefore, scenario probabilities represent the probability of that scenario or similar scenarios occurring. In effect, a given scenario represents the average of a broader bucket of similar severity scenarios and the probability reflects the width of that bucket. Given that it is known where the IFRS 9 scenarios sit in the distribution (the percentiles), their probability (the width of the bucket of similar scenarios) depends on how many scenarios are chosen. Scenario probabilities must add up to 100 per cent so the more scenarios chosen, the smaller the section of the distribution, or bucket, each scenario represents and therefore the smaller the probability. This allows the probabilities to be calculated according to whichever subset of scenarios chosen to use in the ECL calculation. The scenarios are generated at the year-end and are only updated during the year if economic conditions change significantly. The Base case is given a 40 per cent weighting and the downside and upside a 30 per cent weighting each. These weightings were introduced in the 2018 financial year and maintained in the current financial year.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an annual basis.

In March 2020, the World Health Organisation recognised Covid-19 as a pandemic. Covid-19 has caused major disruption to businesses and economic activity with corresponding volatility in global stock markets. There are no comparable recent events which may provide guidance as to the effect of the spread of the Covid-19 and a potential pandemic, and as a result, the ultimate impact of the Covid-19 outbreak or a similar health epidemic is highly uncertain and subject to change. Given the Group's strategy, its performance is linked to the health of the economy. We expect the Group could experience further impairments and consequently reduced profits, particularly if economic expectations deteriorate. The government has also launched a number of initiatives aimed at providing finance to SMEs and support to consumers. Two of our largest borrowers are in the process of lending under the CBIL government guarantee scheme which will also refinance part of their exposure with the benefit of the government guarantee. The recent market improvements and progress made on national vaccination programmes are encouraging, however uncertainty remains.

### **Collateral and other credit enhancements**

The Group employs a range of policies to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies of the acceptability of specific classes of collateral or credit risk mitigation. The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Security over our borrowers receivables;
- Margin agreement for derivatives, for which the Group has also entered into master netting agreements;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments. Derivatives are also collateralised.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Company since the prior period.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses.

### **Modification of financial assets**

The Group sometimes modifies the terms or loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practice are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original assets. The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2.

### **Modification of loans**

The Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; and
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'New' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amounts are also recognised in the Consolidated Statement of Comprehensive Income as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in the Consolidated Statement of Comprehensive Income. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

### **Derecognition other than a modification**

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

The Company enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Company under standard repurchased agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

## Financial liabilities

### Classification and subsequent measurement

In both the current period and prior year, financial liabilities are classified and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to change in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in the Consolidated Statement of Comprehensive Income;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Company recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments

### Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

### Segmental Reporting

The Board and Investment Manager consider investment activity in Credit Assets and selected Equity Assets as the single operating segment of the Group, being the sole purpose for its existence. No other activities are performed.

Whilst visibility over deal type and sector is afforded at an operational level, all are considered 'routes to market' for acquiring interests in credit assets, and thus act merely as indicators of financial performance. There are no segment managers directly accountable for the individual routes to market and the routes to market are not determinants of resource allocations, rather each investment opportunity is considered on its own merits.

The Directors are of the opinion that the Company is engaged in a single segment of business and operations of the Group are mainly in the United Kingdom.

## 2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS as issued by the IASB in conformity with the Companies Act 2006 requires the Group to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. UK company law and IFRS require the Directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed on an ongoing basis. Although these estimates are based on the Directors' best knowledge of the amount, actual results may differ ultimately from those estimates.

The estimates of most significance to the financial statements, are in relation to EIR, expected credit losses and equity investments at fair value through profit or loss. These are detailed below.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The critical judgements relate to the application of consolidation accounting principles, and within the Company, the treatment of asset derecognition and deemed loans. These have been explained above as well as in the accounting policies section of the Notes.

### **Expected Credit loss allowance for financial assets measured at amortised cost**

The calculation of the Group's ECL allowances and provisions against loan commitments and guarantees under IFRS 9 is complex and involves the use of significant judgement and estimation. Loan Impairment Provisions represent an estimate of the losses incurred in the loan portfolios at the balance sheet date. Individual impairment losses are determined as the difference between the carrying value and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. To calculate this involves the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9. Depending on a range of factors such as changes in the economic environment in the UK driven by Covid-19 pandemic, there could be a material adjustment to the carrying amounts of assets and liabilities in the next financial year. The most significant factors are set out below.

**Definition of default** - The Probability of Default ("PD") of an exposure, both over a 12-month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due.

The definition of default adopted by the Company is described in expected credit loss allowance for financial assets measured at amortised cost above.

As noted above, the Group has rebutted the presumption in IFRS 9 that default occurs no later than when a payment is 90 days past due on some of its portfolio. The impact on the Group's ECL allowance of assuming a backstop of 180 days past due for mortgages is not material.

**The lifetime of an exposure** - To derive the PDs necessary to calculate the ECL allowance it is necessary to estimate the expected life of each financial instrument. A range of approaches has been adopted across different product groupings including the full contractual life and taking into account behavioural factors such as early repayments and refinancing. The Group has defined the lifetime for each product by analysing the time taken for all losses to be observed and for a material proportion of the assets to fully resolve through either closure or write-off.

**Significant increase in credit risk ("SICR")** - Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected credit losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected credit losses. Assets are transferred from Stage 1 to Stage 2 when there has been an SICR since initial recognition. The Company uses a quantitative test together with qualitative indicators and a backstop of 30 days past due for determining whether there has been a SICR. The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance.

**Forward looking information** - IFRS 9 requires the incorporation of forward-looking macroeconomic information that is reasonable and supportable, but it provides limited guidance on how this should be performed. The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes.

In order to do this the Group uses a model to project a number of key variables to generate future economic scenarios. These are ranked according to severity of loss and three economic scenarios have been selected to represent an unbiased and full loss distribution. They represent a 'most likely outcome' (the Base case scenario) and two, less likely, 'outer' scenarios, referred to as the 'Upside' and 'Downside' scenarios. These scenarios are used to produce a weighted average PD for each product grouping which is used to calculate the related ECL allowance. This weighting scheme is deemed appropriate for the computation of unbiased ECL. Key scenario assumptions are set using external economist forecasts, helping to ensure the IFRS 9 scenarios are unbiased and maximise the use of independent information. Using externally available forecast distributions helps ensure independence in scenario construction. While key economic variables are set with reference to external distributional forecasts, we also align the overall narrative of the scenarios to the macroeconomic risks faced by the Group at 31 December 2020.

The choice of alternative scenarios and probability weighting is a combination of quantitative analysis and judgemental assessments, designed to ensure that the full range of possible outcomes and material non-linearity are captured. Paths for the two outer scenarios are benchmarked to the Base scenario and reflect the economic risk assessment. Scenario probabilities reflect management judgement and are informed by data analysis of past recessions, transitions in and out of recession, and the current economic outlook. The key assumptions made, and the accompanying paths, represent our 'best estimate' of a scenario at a specified probability. Suitable narratives are developed for the Central scenario and the paths of the two outer scenarios. Using three scenarios, maybe insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. We anticipate there will be only limited instances when the standard approach will not apply. The Base case, Upside and Downside scenarios are usually generated annually and those described herein reflect the conditions in place at the balance sheet date and are only updated during the year if economic conditions change significantly.

The Group's UK mild-upside scenario can be seen as a more positive base case where the economy sees a more rapid recovery out of the recent economic downturn brought by the global Covid-19 pandemic. This mild-upside case scenario sees UK unemployment drop by 2.3 per cent in 2021. With a key driver being a quick recovery to a return to a post-pandemic economy with disruptions seen in 2020 resolving through 2021. Consequently, for the mild upside scenario the Bank of England base rate is forecast to rise to around 0.8 per cent by the end of 2021. The one-year forecast changes in these key economic drivers are shown in the table below.

Longer term forecasting sees the UK economy returning to a pre-pandemic state within five years in the mild upside and base case scenarios. The base case forecasts unemployment reducing to 4% by the end of 2025; returning to match unemployment seen in March 2020. The downside scenario however forecasts a much slower recovery, with unemployment remaining at 6.1% and December 2025 HPI still 19.6% lower than at the end of 2020.

Please see Note 11 for sensitivity analysis. Please note that in 2020 gross domestic product (GDP) has been removed as a linear variable for the IFRS9 models. In prior years GDP was used to reflect the general position of the economy on the assumption that this was generally reflective of the borrowers' ability to pay. However in 2020 this link has been decoupled due to the economy receiving unprecedented levels of government support schemes. As such, removing GDP improves the fit of the model.

2020	Base	Upside	Down-side
UK unemployment rate yearly change	(0.11%)	(1.60%)	2.01%
UK HPI yearly change	(5.50%)	(1.32%)	(14.32%)
UK Base Rate	0.1%	0.4%	(0.3%)

2019	Base	Upside	Down-side
UK unemployment rate yearly change	3.92%	3.78%	4.96%
UK HPI yearly change	0.15%	3.78%	(7.13%)
UK Base Rate	1.86%	2.60%	0.52%

The majority of customers have now ended their forbearance plans granted as part of Covid-19 and are returning to full payments, however a minority remain at 31 December 2020. For loans still in forbearance which were in stage 1 or stage 2 prior to the payment holiday, an overlay has been applied to take additional provisions to account for those not expected to return to full repayment. At 31 December, the overlay was £0.3 million. If the assumed return to full repayment was reduced by 10%, the additional provision would increase to £0.4 million.

**Loss given default ("LGD")** - LGD represents the expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type:

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and price.

**Exposure at default (“EAD”)** - EAD is based on the amounts expected to be owed at the time of default, over the next 12 months (“12M EAD”) or over the remaining lifetime (“Lifetime EAD”). IFRS 9 requires an assumed draw down profile for committed amounts.

## **Equity Investments**

The valuation of unquoted investments and investments for which there is an inactive market is a key area of estimation and may cause material adjustment to the carrying value of those assets and liabilities. The unquoted equity assets are valued on a periodic basis using techniques including a market multiple approach, costs approach and/or income approach. The valuation process is collaborative, involving the finance and investment functions of the Investment Manager with the final valuations being reviewed by the Investment Manager’s Valuation Committee. The techniques used include earnings multiples, discounted cash flow analysis, the value of recent transactions. The valuations often reflect a synthesis of a number of different approaches in determining the final fair value estimate. The individual approach for each investment will vary depending on relevant factors that a market participant would take into account in pricing the asset. These might include the specific industry dynamics, the Investee’s stage of development, profitability, growth prospects or risk as well as the rights associated with the particular security.

Shareholders should note that increases or decreases in any of the inputs in isolation may result in higher or lower fair value measurements. Changes in fair value of all investments held at fair value are recognised in the Consolidated Statement of Comprehensive Income as a capital item. On disposal, realised gains and losses are also recognised in the Consolidated Statement of Comprehensive Income. Transaction costs are included within gains or losses on investments held at fair value, although any related interest income, dividend income and finance costs are disclosed separately in the financial statements. Sensitivity analysis has been performed on the equity investment valuations in Note 12.

## **Consolidation**

Determining whether the Group has control of an entity is generally straightforward when based on ownership of the majority of the voting capital. However, in certain instances, this determination will involve significant judgement, particularly in the case of structured entities where voting rights are often not the determining factor in decisions over the relevant activities. This judgement may involve assessing the purpose and design of the entity. It will also often be necessary to consider whether the Group, or another involved party with power over the relevant activities, is acting as a principal in its own right or as an agent on behalf of others.

The Company does not consider itself to be an investment entity for the purposes of IFRS 10, as it does not hold substantially all of its investments at fair value. Consequently, it consolidates its subsidiaries rather than treating its subsidiaries as investments at fair value through profit or loss.

The Company controls Bud Funding Limited (“Bud”), a limited company incorporated under the law of England and Wales, though it does not own the majority of the voting capital the Company is considered to control Bud through its exposure to the variable returns of the vehicle through hold of a junior note issued by it and the controls it exerts over Bud. Bud was incorporated on 2 November 2020 and the junior note was funded on 2 December 2020, at which point the control began. The Company exercises control over Bud through its involvement in the initial creation of Bud and in the absence of another entity now having control over Bud.

## **4. BUSINESS COMBINATION**

On 20 June 2019 the Group incorporated Sting Funding Limited (“Sting”), a limited Company incorporated under the law of England and Wales. Sting became active on 28 August 2019 when it drew down on a debt facility backed by commercial and second charge residential mortgages. The Group is considered to control Sting through holding 100 per cent of the issued shares.

The Company also controls Bud Funding Limited (“Bud”), a limited company incorporated under the law of England and Wales. The Company is considered to control Bud through its exposure to the variable returns of the vehicle through holding of a junior note issued by it and the control it exerts over Bud. Bud was incorporated on 2 November 2020 and the junior note was funded on 2 December 2020, at which point the control began.

As a result, the financial statements for the year ended 31 December 2020 and 31 December 2019 are prepared on a consolidated basis.

## 5. INTEREST INCOME ON CREDIT ASSETS AT AMORTISED COST

Group	31 December 2020 £'000	31 December 2019 £'000
<b>Investment income</b>		
Interest income	50,948	59,953
Commitment fee income	2,154	1,326
Arrangement fee income	1,844	1,416
Net gain on foreign exchange*	21	-
<b>Total investment income</b>	<b>54,967</b>	<b>62,695</b>
<b>Other income</b>		
Deposit interest	3	2
<b>Total income</b>	<b>54,970</b>	<b>62,697</b>

\*Gain on foreign exchange also includes fair value movements on derivatives taken out to economically hedge fair value exposures

## 6. MANAGEMENT AND PERFORMANCE FEE

### Management Fee

The management fee is calculated and payable monthly in arrears at a rate equal to 1/12 of 1.0 per cent per month of Gross Asset Value (the "Management Fee"). Gross Asset Value is the equivalent of Total Assets on the Consolidated Statement of Financial Position. The aggregate fee payable on this basis must not exceed 1.0 per cent of the gross assets of the Company and its group in any year. The Management Fee is allocated between the revenue and capital accounts based on the prospective split of the Gross Asset Value between revenue and capital.

In respect of any issue of Ordinary Shares or C Shares, until the date on which 80 per cent of the net proceeds of such issue have been invested or committed to be invested in Credit Assets or Equity Assets, the Net Asset Value attributable to such Ordinary Shares or C Shares shall, for the purposes of the Management Fee, exclude any portion of the issue proceeds in cash, or invested in cash deposits or cash equivalent investments. Where there are C Shares in issue, the Management Fee will be calculated separately on the gross assets attributable to the Ordinary Shares and the C Shares. Management fees charged for the year ended 31 December 2020 totalled £5.9 million (2019: £6.1 million) of which £1.0 million was payable at the year-end (2019: £0.5 million).

### Performance Fee

The Investment Manager is also entitled to a performance fee, which is calculated in respect of each twelve-month period starting on 1 January and ending on 31 December in each calendar year ("Calculation Period"), and the final Calculation Period shall end on the day on which the management agreement is terminated or, if earlier, the business day immediately preceding the day on which the Company goes into liquidation.

The performance fee will only be payable if the Adjusted Net Asset Value at the end of a Calculation Period exceeds a hurdle threshold, equal to the Adjusted Net Asset Value immediately following admission to trading on the London Stock Exchange, compounded at a rate equal to 5 per cent per annum (the "Hurdle").

If, on the last day of a Calculation Period (each a "Calculation Date"), the Adjusted Net Asset Value exceeds the Hurdle, the Investment Manager shall be entitled to a performance fee equal to the lower of:

- the amount by which the Adjusted Net Asset Value exceeds the Hurdle, in each case as at the Calculation Date; and
- 10 per cent of the amount by which total growth in Adjusted Net Asset Value since first admission (being the aggregate of the growth in Adjusted Net Asset Value in the relevant Calculation Period and in each previous Calculation Period), after adding back any performance fees paid to the Investment Manager, exceeds the aggregate of all performance fees payable to the Investment Manager in respect of all previous Calculation Periods.

'Adjusted Net Asset Value' means the Net Asset Value after: (i) excluding any increases or decreases in Net Asset Value attributable to the issue or repurchase of any Ordinary Shares; (ii) adding back the aggregate amount of any dividends paid or distributions made in respect of any Ordinary Shares; (iii) excluding the aggregate amount of any dividends or distributions accrued but unpaid in respect of any Ordinary Shares; and (iv) excluding the amount of any Performance Fees accrued but unpaid, in each case without double counting.

In the event that C Shares are in issue, the Investment Manager shall be entitled to a performance fee in respect of the net assets referable to the C Shares on the same basis as summarised above, except that a Calculation Period shall be deemed to end on the date of the conversion of the relevant tranche of C Shares into Ordinary Shares.

Performance fees for the year ended 31 December 2020 totalled £2.3 million (2019: £3.5 million) of which £2.3 million was payable at the year-end (2019: £3.5 million).

### Fee payable to Origination Partner

The Origination Partner is entitled to be paid a fee calculated on the purchase price for each Credit Asset acquired by the Company from the Origination Partner. For so long as the Origination Partner is part of the same group as the Investment Manager, the amount of all fees payable by the Company to the Origination Partner shall be deducted from the Management Fee payable to the Investment Manager.

The Group reimburses the Origination Partner for the fees of referral partners, and Servicers (to the extent paid by the Origination Partner) in connection with Credit Assets in which the Group acquires an interest. The amount of such fees are agreed between the Origination Partner and the relevant counterparties on arm's length commercial terms, taking account of the strength of the relationship between the Origination Partner, the Investment Manager and each relevant counterparty. There was £nil payable to the Origination Partner at 31 December 2020 (2019: £nil).

## 7. FUND EXPENSES

Group	31 December 2020 £'000	31 December 2019 £'000
Directors' fees	200	149
Administrator's fees	148	192
Auditors' remuneration	287	160
Amortisation	41	176
Capital raise costs	-	569
Potential merger costs	585	102
LSE market listing costs	280	-
Other expenses	1,064	1,106
<b>Total fund expenses</b>	<b>2,605</b>	<b>2,454</b>

All expenses where applicable are inclusive of VAT (except those paid to the auditors which are net). Directors' fees above include £178,000 (2019: £131,834) paid to Directors' and £21,538 (2019: £16,910) of employment taxes and valid business expenses. Further details on Directors' fees can be found in the Directors' remuneration report above.

The capital raise and project costs are in relation to the third base prospectus that the Company released on 21 December 2018. These costs were expensed in the 2019 on the expiration of this placement programme. This was a one-off cost incurred in the year.

The auditors' remuneration net of VAT for the audit of the Company was £220,000 for the year ended 31 December 2020 (2019: £160,000) with additional costs of £29,000 relating to the audit of the Annual Report and Financial Statements for the year ended 31 December 2019. Remuneration includes the audit of subsidiaries during the year was £37,500 (2019: nil). Non-audit fees amounted to 2020: £nil (2019: £nil).

## 8. TAXATION

It is the intention of the Directors to conduct the affairs of the Company so as to satisfy the conditions for approval as an investment trust. As an investment trust the Company is exempt from corporation tax on capital gains. The Company's revenue income from loans is subject to tax, but offset by any interest distribution paid, which has the effect of reducing that corporation tax to nil. This means the interest distribution may be taxable in the hands of the Company's shareholders.

Any change in the Company's tax status or in taxation legislation generally could affect the value of investments held by the Company, affect the Company's ability to provide returns to shareholders, lead the Company to lose its exemption from UK Corporation tax on chargeable gains or alter the post-tax returns to shareholders. It is not possible to guarantee that the Company will remain a non-close company, which is a requirement to maintain status as an investment trust, as the ordinary shares are freely transferable. The Company, in the event that it becomes aware that it is a close company, or otherwise fails to meet the criteria for maintaining investment trust status, will as soon as reasonably practicable, notify shareholders of this fact.

The Company may be subject to taxation under the tax rules of the jurisdictions in which it invests, including by way of withholding of tax from interest and other income receipts. Although the Company will endeavour to minimise any such taxes this may affect the level of returns to shareholders.

The following table presents the tax chargeable for the period ended 31 December 2020.

Group	Revenue £'000	Capital £'000	Total £'000
Corporation tax	-	-	-
<b>Total current tax charge</b>	-	-	-
Deferred tax movement	-	-	-
<b>Total tax charge in income statement</b>	-	-	-

The following table presents the tax chargeable for the year ended 31 December 2019.

Group	Revenue £'000	Capital £'000	Total £'000
Corporation tax	-	-	-
<b>Total current tax charge</b>	-	-	-
Deferred tax movement	-	-	-
<b>Total tax charge in income statement</b>	-	-	-

#### Factors affecting taxation charge for the year

The taxation charge for the year is lower than the standard rate of UK corporation tax of 19.00 per cent (2019: 19.00 per cent). A reconciliation of the 2020 taxation charge based on the standard rate of UK corporation tax to the actual taxation charge is shown below.

Group	Revenue £'000	Capital £'000	Total £'000
Profit before taxation	20,420	281	20,701
Profit before taxation multiplied by the standard rate of UK corporation tax of 19.00%	3,880	53	3,933
<b>Effects of:</b>			
Excess management expenses not utilised / (not utilised)	855	(53)	802
Interest distributions paid in respect of the year	(4,735)	-	(4,735)
<b>Total tax charge in income statement</b>	-	-	-

A reconciliation of the 2019 taxation charge based on the standard rate of UK corporation tax to the actual taxation charge is shown below.

Group	Revenue £'000	Capital £'000	Total £'000
Profit/(loss) before taxation	31,276	(65)	31,211
Profit/(loss) before taxation multiplied by the standard rate of UK corporation tax of 19.00%	5,942	(12)	5,930
<b>Effects of:</b>			
Excess management expenses not utilised	54	12	66
Interest distributions paid in respect of the year	(5,996)	-	(5,996)
<b>Total tax charge in income statement</b>	-	-	-

## 9. EARNINGS PER SHARE

Group	31 December 2020	31 December 2019
Revenue	55.7p	79.3p
Capital	0.8p	(0.2)p
<b>Earnings per ordinary share</b>	<b>56.5p</b>	<b>79.1p</b>

The calculation for the year ended 31 December 2020 is based on revenue returns of £20.4 million, capital returns of £0.3 million and total returns of £20.7 million and a weighted average number of ordinary shares of 36,657,807.

The calculation for the year ended 31 December 2019 is based on revenue returns of £31.3 million, capital returns of £(0.1) million and total returns of £31.2 million and a weighted average number of ordinary shares of 39,449,919.

## 10. ORDINARY DIVIDENDS

	31 December 2020 £'000	31 December 2019 £'000
20.00p Interim dividend for the period ended 31 December 2018 (paid on 29 March 2019)	-	7,890
20.00p Interim dividend for the period to 31 March 2019 (paid on 28 June 2019)	-	7,890
20.00p Interim dividend for the period to 30 June 2019 (paid on 30 September 2019)	-	7,890
20.00p Interim dividend for the period to 30 September 2019 (paid 27 December 2019)	-	7,890
20.00p Interim dividend for the period to 31 December 2019 (paid 27 March 2020)	7,450	-
20.00p Interim dividend for the period to 31 March 2020 (paid on 23 June 2020)	7,303	-
20.00p Interim dividend for the period to 30 June 2020 (paid on 22 September 2020)	7,201	-
20.00p Interim dividend for the period to 30 September 2020 (paid 27 December 2020)	7,051	-
<b>Total dividend paid in period</b>	<b>29,005</b>	<b>31,560</b>
20.00p Interim dividend for the period to 31 December 2019 (paid 27 March 2020)	-	7,450
20.00p Interim dividend for the period to 31 December 2020 (paid 26 March 2021)	7,051	-
<b>Total dividend paid in relation to period</b>	<b>28,606</b>	<b>31,120</b>

The 31 December 2020 interim dividend of 20.00 pence was approved on 25 February 2021 and paid on 26 March 2021 before the approval of the financial statements.

## 11. INVESTMENTS AT AMORTISED COST

### (a) Credit Assets at amortised cost

The disclosure below presents the gross carrying value of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL. Please see Note 1 for more detail on the allowance for ECL.

The following table analyses loans by industry sector and represent the concentration of exposures on which credit risk is managed for both the Group and Company as at 31 December 2020.

	31 December 2020	1 January 2020
--	------------------	----------------

Group and Company	Gross Carrying Amount £'000	Allowance for ECL £'000	Net Carrying Amount £'000	Gross Carrying Amount £'000	Allowance for ECL £'000	Net Carrying Amount £'000
<b>Credit Assets at amortised cost</b>						
Consumer	211,636	(20,000)	191,636	320,107	(19,844)	300,264
Property	343,219	(10,269)	332,950	246,846	(10,051)	236,795
SME	23,359	(208)	23,151	44,198	(259)	43,939
<b>Total Assets</b>	<b>578,214</b>	<b>(30,477)</b>	<b>547,737</b>	<b>611,152</b>	<b>(30,154)</b>	<b>580,998</b>

Group and Company	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2020	3,217	2,606	24,331	30,154
Movement from stage 1 to stage 2	(102)	3,170	-	3,068
Movement from stage 1 to stage 3	(270)	-	7,379	7,109
Movement from stage 2 to stage 1	11	(515)	-	(504)
Movement from stage 2 to stage 3	-	(1,180)	3,206	2,026
Movement from stage 3 to stage 1	4	-	(343)	(339)
Movement from stage 3 to stage 2	-	75	(213)	(138)
Decreases due to repayments	(794)	(2,607)	(4,870)	(8,271)
Increases due to origination	381	-	-	381
Remeasurements due to modelling	490	796	963	2,249
Loans sold	(1,473)	(418)	(3,367)	(5,258)
<b>Allowance for ECL at 31 December 2020</b>	<b>1,464</b>	<b>1,927</b>	<b>27,086</b>	<b>30,477</b>

The following table analyses loans by industry sector and represent the concentration of exposures on which credit risk is managed for both the Group and Company as at 31 December 2019. Please see Note 1 to the financial statements for more detail on the allowance for ECL.

Group and Company	31 December 2019			1 January 2019		
	Gross Carrying Amount £'000	Allowance for ECL £'000	Net Carrying Amount £'000	Gross Carrying Amount £'000	Allowance for ECL £'000	Net Carrying Amount £'000
<b>Credit Assets at amortised cost</b>						
Consumer	320,107	(19,844)	300,264	294,467	(12,724)	281,743
Property	246,846	(10,051)	236,795	237,310	(9,880)	227,430
SME	44,198	(259)	43,939	67,536	(179)	67,357
<b>Total Assets</b>	<b>611,152</b>	<b>(30,154)</b>	<b>580,998</b>	<b>599,313</b>	<b>(22,783)</b>	<b>576,530</b>

Group and Company	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2019	3,526	2,927	16,330	22,783

Movement from stage 1 to stage 2	(66)	1,905	-	<b>1,839</b>
Movement from stage 1 to stage 3	(505)	-	7,065	<b>6,560</b>
Movement from stage 2 to stage 1	5	(905)	-	<b>(900)</b>
Movement from stage 2 to stage 3	-	(1,274)	2,028	<b>754</b>
Movement from stage 3 to stage 2	-	128	(465)	<b>(337)</b>
Movement from stage 3 to stage 1	8	-	(502)	<b>(494)</b>
Remeasurements due to modelling	640	332	(672)	<b>300</b>
Decreases due to repayments	(2,208)	(521)	(673)	<b>(3,402)</b>
Increases due to origination	1,189	-	-	<b>1,189</b>
Increases within Stage	628	14	1,220	<b>1,862</b>
<b>Allowance for ECL at 31 December 2019</b>	<b>3,217</b>	<b>2,606</b>	<b>24,331</b>	<b>30,154</b>

### (b) Expected Credit Loss allowance for IFRS 9

Under the expected credit loss model introduced by IFRS 9 Impairment Provisions are driven by changes in credit risk of instruments, with a provision for lifetime expected credit losses recognised where the risk of default of an instrument has increased significantly since initial recognition.

The following table analyses Group and Company loans by stage and sector for the year ended 31 December 2020:

<b>Group</b>	<b>Consumer £'000</b>	<b>Property £'000</b>	<b>SME £'000</b>	<b>Total £'000</b>
At 1 January 2020	19,844	10,051	259	30,154
Charge for the period – Stage 1	(344)	149	(91)	(286)
Charge for the period – Stage 2	61	(320)	(17)	(276)
Charge for the period – Stage 3	5,697	389	57	6,143
<b>Charge for the period – total</b>	<b>5,414</b>	<b>218</b>	<b>(51)</b>	<b>5,581</b>
Loans sold	(5,258)	-	-	(5,258)
<b>Allowance for ECL at 31 December 2020</b>	<b>20,000</b>	<b>10,269</b>	<b>208</b>	<b>30,477</b>

The following table analyses Group and Company loans by stage and sector for the year ended 31 December 2019:

<b>Group</b>	<b>Consumer £'000</b>	<b>Property £'000</b>	<b>SME £'000</b>	<b>Total £'000</b>
At 1 January 2019	12,724	9,880	179	22,783
Charge for the period – Stage 1	(526)	181	36	(309)
Charge for the period – Stage 2	278	(588)	(11)	(321)
Charge for the period – Stage 3	7,368	578	55	8,001
<b>Charge for the period – total</b>	<b>7,120</b>	<b>171</b>	<b>80</b>	<b>7,371</b>
<b>Allowance for ECL at 31 December 2019</b>	<b>19,844</b>	<b>10,051</b>	<b>259</b>	<b>30,154</b>

### Measurement uncertainty and sensitivity analysis of ECL

The recognition and measurement of ECL is highly complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9.

For most portfolios, the Group has adopted the use of three economic scenarios, representative of Oxford Economics view of forecast economic conditions, sufficient to calculate unbiased ECL. They represent a 'most likely outcome' (the Base scenario) and two, less likely, 'outer' scenarios, referred to as the 'Upside' and 'Downside' scenarios.

The ECL recognised in the financial statements reflect the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on the economic scenarios described in Note 2 to the financial statements, including management overlays where required. The probability-weighted amount is typically a higher number than would result from using only the Base (most likely) economic scenario. ECLs typically have a non-linear relationship to the many factors which influence credit losses, such that more favourable macroeconomic factors do not reduce defaults as much as less favourable macroeconomic factors increase defaults. The ECL calculated for each of the scenarios represent a range of possible outcomes that have been evaluated to estimate ECL. As a result, the ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes. There is a high degree of estimation uncertainty in numbers representing tail risk scenarios when assigned a 100 per cent. A wider range of possible ECL outcomes reflects uncertainty about the distribution of economic conditions and does not necessarily mean that credit risk on the associated loans is higher than for loans where the distribution of possible future economic conditions is narrower.

For stage 3 impaired loans, LGD estimates consider independent recovery valuations provided by external consultants where available, or internal forecasts corresponding to anticipated economic conditions.

The table below shows a sensitivity analysis for ECL based on changing the weighting of the scenarios to allocate a 100 per cent weight to the downside scenario. The scenarios are applicable to 31 December 2020. The analysis shows that the ECL would have been £4.0 million higher under this sensitivity.

<b>2020</b>	<b>Weighted Year end ECL £'000</b>	<b>100% Downside Scenario £'000</b>
Consumer	20,000	20,205
Property	10,269	14,099
SME	208	208
<b>Total</b>	<b>30,477</b>	<b>34,512</b>

At 31 December 2019 if the weightings used represented a 100 per cent downside scenario the ECL would have been £2.1 million higher as split below:

<b>2019</b>	<b>Weighted Year end ECL £'000</b>	<b>100% Downside Scenario £'000</b>
Consumer	19,844	20,749
Property	10,051	11,282
SME	259	260
<b>Total</b>	<b>30,154</b>	<b>32,291</b>

The sensitivity of the ECL has been further analysed by assessing the impact of £10.0 million of credit assets at amortised cost moving from Stage 1 to Stage 2. The analysis shows that the ECL would have been £2.5 million higher under this sensitivity.

The amortised cost of the structurally secured portfolio is £311 million, and the largest exposure is set out above. We have stress tested each structured position as at 31 December 2020 to analyse the sensitivity to impairment of the underlying assets. The portfolio was able to withstand the stress test without incurring a loss, this has been done by running each structured model on a 100% downside scenario to show that excess cashflow remains, such that in the event of default LGD is nil.

## 12. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

### (a) Movements in the year

The table below sets out the movement in equities assets at fair value through profit or loss for the Group for the year ended 31 December 2020.

<b>Group</b>	<b>2020 £'000</b>
Valued using transaction price	550
Valued using an earnings multiple	7,840
<b>Opening fair value</b>	<b>8,390</b>
Purchases at cost	13,599
Disposal at cost	(6,655)
Net change in unrealised gains	380
Realised (losses)/gains	(755)
<b>Closing fair value at 31 December 2020</b>	<b>14,959</b>
Comprising:	
Valued using an earnings multiple	1,380
Valued using a TNAV multiple	13,579
<b>Closing fair value as at 31 December 2020</b>	<b>14,959</b>

The table below sets out the movement in equity assets at fair value through profit or loss for the Company for the year ended 31 December 2020.

<b>Company</b>	<b>2020 £'000</b>
Valued using Net Asset Value	4,493
Valued using transaction price	550
Valued using an earnings multiple	7,840
<b>Opening fair value</b>	<b>12,883</b>
Purchases at cost	13,599
Disposal at cost	(6,655)
Net change in unrealised (losses)/gains	(4,113)
Realised (losses)/gains	(755)
<b>Closing fair value at 31 December 2020</b>	<b>14,959</b>
Comprising:	
Valued using an earnings multiple	1,380
Valued using a TNAV multiple	13,579
<b>Closing fair value as at 31 December 2020</b>	<b>14,959</b>

The table below sets out the movement in equity assets at fair value through profit or loss for the Group for the year ended 31 December 2019.

<b>Group</b>	<b>2019 £'000</b>
Valued using transaction price	3,000
Valued using an earnings multiple	6,980
<b>Opening fair value</b>	<b>9,980</b>

Purchases at cost	380
Disposal at cost	(2,000)
Net change in unrealised (losses)/gains	30
<b>Closing fair value at 31 December 2019</b>	<b>8,390</b>

Comprising:

Valued using sales value	550
Valued using an earnings multiple	7,840
<b>Closing fair value as at 31 December 2019</b>	<b>8,390</b>

The table below sets out the movement in equity assets at fair value through profit or loss for the Company for the year ended 31 December 2019.

<b>Company</b>	<b>2019 £'000</b>
Valued using transaction price	3,000
Valued using an earnings multiple	6,980
<b>Opening fair value</b>	<b>9,980</b>
Purchases at cost	380
Disposal at cost	(2,000)
Net change in unrealised (losses)/gains	4,523
<b>Closing fair value at 31 December 2019</b>	<b>12,883</b>
Comprising:	
Valued using Net Asset Value	4,493
Valued using sales value	550
Valued using an earnings multiple	7,840
<b>Closing fair value as at 31 December 2019</b>	<b>12,883</b>

### (b) Fair value of financial instruments

IFRS 13 requires the Company to classify its financial instruments held at fair value using a hierarchy that reflects the significance of the inputs used in the valuation methodologies. These are as follows:

- Level 1 – quoted prices in active markets for identical investments;
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayments, credit risk, etc.); and
- Level 3 – significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments).

An investment is always categorised as Level 1, 2 or 3 in its entirety. In certain cases, the fair value measurement for an investment may use a number of different inputs that fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgement and is specific to the investment.

The following sets out the classifications in valuing the Group's investments:

<b>Group</b>	<b>Closing fair value as at 31 Dec 2020 £'000</b>	<b>Closing fair value as at 31 Dec 2019 £'000</b>
Level 1	-	-
Level 2	-	-

Level 3	14,959	8,390
<b>Total</b>	<b>14,959</b>	<b>8,390</b>

The following sets out the classifications in valuing the Company's investments:

Group	Closing fair value as at 31 Dec 2020 £'000	Closing fair value as at 31 Dec 2019 £'000
Level 1	-	-
Level 2	-	-
Level 3	14,959	12,883
<b>Total</b>	<b>14,959</b>	<b>12,883</b>

The investments in unquoted equities are valued using several different techniques, including recent transactions and recent rounds of funding by the investee entities and the market approach. Quantitative information regarding the unobservable inputs for the Group and Company's Level 3 positions as at 31 December 2020 is given below:

Closing fair value as at 31 Dec 2020 £'000	Valuation Technique	Earnings multiple changed by 1 £'000
1,380	Earnings Multiple	265
<b>1,380</b>		<b>265</b>

Earnings multiples used is 4.3x.

Closing fair value as at 31 Dec 2020 £'000	Valuation Technique	TNAV multiple changed by 0.25x £'000
13,579	TNAV Multiple	1,583
<b>13,579</b>		<b>1,583</b>

TNAV multiple used is 2.15x.

Quantitative information regarding the unobservable inputs for the Group and Company's Level 3 positions as at 31 December 2019 is given below:

Group Closing fair value as at 31 Dec 2019 £'000	Valuation Technique	Earnings multiple changed by 1 £'000
8,390	Earnings Multiple	1,948
<b>8,390</b>		<b>1,948</b>

Company Closing fair value as at 31 Dec 2019 £'000	Valuation Technique	Net Asset Value increased by 20% £'000
4,493	Net Asset Value	899
<b>4,493</b>		<b>899</b>

Company Closing fair value as at 31 Dec 2019 £'000	Valuation Technique	Earnings multiple changed by 1 £'000
8,390	Earnings Multiple	1,948
<b>8,390</b>		<b>1,948</b>

Earnings multiples range from 2x to 8x.

### 13. CREDIT ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

#### (a) Movements in the year

The table below sets out the movement in credit assets at fair value through profit or loss for the Group for the year ended 31 December 2020.

Group	2020 £'000
<b>Opening fair value</b>	-
Purchases at cost	2,621
Reclassification from loans at amortised cost	2,509
Net change in unrealised gains	775
<b>Closing fair value at 31 December 2020</b>	<b>5,905</b>
Comprising:	
Valued using an earnings multiple	1,655
Valued using a TNAV multiple	4,250
<b>Closing fair value as at 31 December 2020</b>	<b>5,905</b>

The table below sets out the movement in credit assets at fair value through profit or loss for the Company for the year ended 31 December 2020.

Company	2020 £'000
<b>Opening fair value</b>	-
Purchases at cost	2,621
Reclassification from loans at amortised cost	2,509
Net change in unrealised gains	775
<b>Closing fair value at 31 December 2020</b>	<b>5,905</b>
Comprising:	
Valued using an earnings multiple	1,655
Valued using TNAV multiple	4,250
<b>Closing fair value as at 31 December 2020</b>	<b>5,905</b>

#### (b) Fair value of financial instruments

IFRS 13 requires the Company to classify its financial instruments held at fair value using a hierarchy that reflects the significance of the inputs used in the valuation methodologies. These are as follows:

- Level 1 – quoted prices in active markets for identical investments;
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayments, credit risk, etc.); and
- Level 3 – significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments).

An investment is always categorised as Level 1, 2 or 3 in its entirety. In certain cases, the fair value measurement for an investment may use a number of different inputs that fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgement and is specific to the investment.

The following sets out the classifications in valuing the Group's investments:

Group	Closing fair value as at 31 Dec 2020 £'000	Closing fair value as at 31 Dec 2019 £'000
Level 1	-	-
Level 2	-	-
Level 3	5,905	-
<b>Total</b>	<b>5,905</b>	<b>-</b>

The following sets out the classifications in valuing the Company's investments:

Company	Closing fair value as at 31 Dec 2020 £'000	Closing fair value as at 31 Dec 2019 £'000
Level 1	-	-
Level 2	-	-
Level 3	5,905	-
<b>Total</b>	<b>5,905</b>	<b>-</b>

Quantitative information regarding the unobservable inputs for the Group and Company's Level 3 positions as at 31 December 2020 is given below:

Closing fair value as at 31 Dec 2020 £'000	Valuation Technique	Earnings multiple changed by 1 £'000
1,655	Earnings Multiple	972
<b>1,655</b>		<b>972</b>

Earnings multiple used is 2.65x.

Closing fair value as at 31 Dec 2020 £'000	Valuation Technique	TNAV multiple changed by 0.1x £'000
4,250	TNAV Multiple	425
<b>4,250</b>		<b>425</b>

TNAV multiple used is 1.0x.

## 14. FINANCIAL RISK MANAGEMENT

The Group's investing activities undertaken in pursuit of its investment objective, as set out above, involve certain inherent risks. The main financial risks arising from the Group's financial instruments are credit risk, market risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks as summarised below. Credit risk is analysed further in Note 15.

### Market risk

The fair value or future cash flows of a financial instrument held by the Group may fluctuate because of changes in market prices. Market risk can be summarised as comprising three types of risk:

- **Interest rate risk** – the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates; and
- **Currency risk** – the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates.
- **Price risk** – the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk);

The Group's exposure, sensitivity to and management of each of these risks is described in further detail below. Management of market risk is fundamental to the Group's investment objective. The investment portfolio is continually monitored to ensure an appropriate balance of risk and reward. The Board has also established a series of investment parameters, which are reviewed annually, designed to limit the risk inherent in managing a portfolio of investments.

#### (a) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments.

The Group invests in Credit Assets which may be subject to a fixed rate of interest, or a floating rate of interest (which may be linked to base rates or other benchmarks). The Group's borrowings may be subject to a floating rate of interest. The Group intends to manage the mismatch it has in respect of the income generated by its Credit Assets, on the one hand, with the liabilities in respect of its borrowings, on the other hand, by matching any floating rate borrowings with investments in Credit Assets that are also subject to a floating rate of interest. To the extent that the Group is unable to match its funding in this way, it may use derivative instruments, including interest rate swaps, to reduce its exposure to fluctuations in interest rates, however some unmatched risk may remain. The Group has not used any interest rate derivative instruments in the year.

The Group finances its operations through its share capital and reserves, including realised gains on investments as well as the Group's debt facilities. As at 31 December 2020 the Group had £273.5 million drawn down under these facilities (2019: £206.8 million).

Exposure of the Group's financial assets and liabilities to floating interest rates (giving cash flow interest rate risk when rates are reset) and fixed interest rates (giving fair value risk) as at 31 December 2020 is shown below:

Group Financial instrument	Floating Rate £'000	Fixed or Administered Rate £'000	Total £'000
Credit Assets at amortised cost	204,592	343,145	547,737
Cash and cash equivalents	62,548	-	62,548
Interest bearing borrowings	(273,539)	-	(273,539)
<b>Total exposure</b>	<b>(6,399)</b>	<b>343,145</b>	<b>336,746</b>

Exposure of the Company's financial assets and liabilities to floating interest rates (giving cash flow interest rate risk when rates are reset) and fixed interest rates (giving fair value risk) as at 31 December 2020 is shown below:

Company Financial instrument	Floating Rate £'000	Fixed or Administered Rate £'000	Total £'000
Credit Assets at amortised cost	204,592	343,145	547,737
Cash and cash equivalents	59,673	-	59,673
Interest bearing borrowings	(167,348)	-	(167,348)
<b>Total exposure</b>	<b>96,917</b>	<b>343,145</b>	<b>440,062</b>

Exposure of the Company and Group's financial assets and liabilities to floating interest rates (giving cash flow interest rate risk when rates are reset) and fixed interest rates (giving fair value risk) as at 31 December 2019 is shown below:

Group Financial instrument	Floating Rate £'000	Fixed or Administered Rate £'000	Total £'000
Credit Assets at amortised cost	206,932	374,066	580,998
Cash and cash equivalents	15,154	-	15,154
Interest bearing borrowings	(205,946)	-	(205,946)
<b>Total exposure</b>	<b>16,140</b>	<b>374,066</b>	<b>390,206</b>

Exposure of the Company's financial assets and liabilities to floating interest rates (giving cash flow interest rate risk when rates are reset) and fixed interest rates (giving fair value risk) as at 31 December 2019 is shown below:

<b>Company Financial instrument</b>	<b>Floating Rate £'000</b>	<b>Fixed or Administered Rate £'000</b>	<b>Total £'000</b>
Credit Assets at amortised cost	206,932	374,066	580,998
Cash and cash equivalents	13,251	-	13,251
Interest bearing borrowings	(130,000)	-	(130,000)
<b>Total exposure</b>	<b>90,183</b>	<b>374,066</b>	<b>464,249</b>

An administered rate is not like a floating rate, movements in which are directly linked to benchmarks, such as LIBOR.

The administered rate can be changed at the discretion of the lender.

A 1 per cent change in interest rates impacts income on the assets with a floating rate by £2.7 million (2019: £2.2 million). A 1 per cent change in interest rates impacts debt expense on the liabilities with a floating rate by £2.7 million (2019: £2.0 million).

#### (b) Currency risk

Currency risk is the risk that the value of net assets will fluctuate due to changes in foreign exchange rates. Relevant risk variables are generally movements in the exchange rates of non-functional currencies in which the Group holds financial assets and liabilities. The assets of the Group are invested in Credit Assets and other investments including unquoted equities which are denominated in Pounds Sterling and other currencies. Accordingly, the value of such assets may be affected favourably or unfavourably by fluctuations in currency rates. The Group hedges currency exposure between Pounds Sterling and other currencies

#### Concentration of foreign currency exposure

The Investment Manager monitors the fluctuations in foreign currency exchange rates and may use forward foreign exchange contracts to hedge the currency exposure of the Group's non-GBP denominated investments. The Investment Manager re-examines the currency exposure on a regular basis in each currency and manages the Group's currency exposure in accordance with market expectations. The Group does not currently designate any derivatives as hedges for hedge accounting purposes as described under IFRS 9 and records its derivative activities on a fair value basis.

The below table presents the net exposure to Euros at 31 December 2020. The table includes forward foreign exchange contracts at their notional exposure value and excludes all GBP assets and liabilities recorded on the Consolidated Statement of Financial Position.

<b>Total Assets (£'000)</b>	<b>Total Liabilities (£'000)</b>	<b>Forward Contract (£'000)</b>	<b>Net Exposure after Forward Contract (£'000)</b>
2,537	-	(2,508)	29
<b>2,537</b>	<b>-</b>	<b>(2,508)</b>	<b>29</b>

If the GBP exchange rate simultaneously increased/decreased by 10 per cent against the above currencies, the impact on profit would be an increase/decrease of £3,000. 10 per cent is considered to be a reasonably possible movement in foreign exchange rates. All forward contracts held at 31 December 2020 were carried out with Infinity International Limit and represent €2,780,000 of Euros.

The below table presents the net exposure to Euro's at 31 December 2019. The table includes forward foreign exchange contracts at their notional exposure value and excludes all GBP assets and liabilities recorded on the Consolidated Statement of Financial Position.

<b>Total Assets (£'000)</b>	<b>Total Liabilities (£'000)</b>	<b>Forward Contract (£'000)</b>	<b>Net Exposure after Forward Contract (£'000)</b>
---------------------------------	--------------------------------------	-------------------------------------	--

4,208	(171)	(4,143)	(106)
<b>4,208</b>	<b>(171)</b>	<b>(4,143)</b>	<b>(106)</b>

If the GBP exchange rate simultaneously increased/decreased by 10 per cent against the above currencies, the impact on profit would be an increase/decrease of £11,000. 10 per cent is considered to be a reasonably possible movement in foreign exchange rates.

### (c) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market. Local, regional or global events such as war, acts of terrorism, the spread of infectious illness or other public health issue, recessions, or other events could have a significant impact on the Group and market prices of its investments. This risk applies to financial instruments held by the Group, including equity assets, credit assets and derivatives. Sensitivity analysis on the equity assets is included in Note 12.

### Capital Management

The Company's primary objectives in relation to the management of capital are driven by strategic and organisational requirements but are focused around:

- ensuring its ability to continue as a going concern; and
- maximising the long-term capital growth for its shareholders through an appropriate balance of equity capital and gearing.

In the management of capital and in its definition, we include equity (including revenue and capital reserves), debt (including long-term credit facilities, commercial paper backstopped by long-term credit facilities and any hedging assets or liabilities associated with long-term debt items), cash and temporary investments.

The Board manage the capital structure and make adjustments to it considering changes in economic conditions and the risk characteristics of the business. The Company has met the above objectives through diversifying the leverage facilities through the introduction of a new Topco facility, a new amortising term loan and an increase in an existing facility.

The Group monitors capital using a ratio of debt to equity. Debt is calculated as total interest-bearing borrowings (as shown in the Consolidated Statement of Financial Position). The Group's debt to equity ratio which is a key performance indicator used for internal management at Group level was 76.6 per cent at 31 December 2020 (31 December 2019: 51.7 per cent).

The Group is subject to externally imposed capital requirements:

- The Company's Articles of Association restrict borrowings to the value of its share capital and reserves;
- As a public company, the Company has a minimum share capital of £50,000;
- To be able to pay dividends out of profits available for distribution by way of dividends, the Company must be able to meet one of the two capital restriction tests imposed on investment companies by company law; and
- The Company's borrowings are subject to covenants limiting the total exposure based on interest cover ratios, a minimum total net worth and a cap of borrowings as a percentage of the eligible borrowing base.

The Company has complied with all the above requirements during this financial year.

## 15. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group's credit risks arise principally through exposures to loans originated or acquired by the Group and cash deposited with banks, both of which are subject to risk of borrower default.

The Investment Manager establishes and adheres to stringent underwriting criteria. The Group invests in a granular portfolio of assets, diversified at the underlying borrower level, with each loan being subject to a maximum single loan exposure limit. This helps mitigate credit concentrations in relation to an individual customer, a borrower group or a collection of related borrowers.

The credit quality of loans is assessed through evaluation of various factors, including credit scores, payment data, collateral available from the borrower and other information.

The Group further mitigates its exposure to credit risk through structuring facilities whereby the facilities are secured on a granular pool of performing loans and structured so that the Origination Platform and or borrower provides the first loss, and the Group finances the senior risk.

Further risk is mitigated in the property sector as the Group takes collateral in the form of property to mitigate the credit risk arising from residential mortgage lending and commercial real estate.

The outbreak of Covid-19 continues to cause major disruption across the globe. The potential impacts of the government's assistance to consumers and businesses coming to an end are yet unknown, but they may increase the potential expected credit loss impact. Depending on the evolution of the Covid-19 situation, this could result in further economic downturn and potentially a material increase in credit risk. This is being continually monitored.

Set out below is the analysis of the closing balances of the Group and Company's credit assets split by the type of loan and the credit risk band as at 31 December 2020, each loan is assigned to a credit risk band at inception:

<b>Credit Risk Band</b>	<b>Unsecured £'000</b>	<b>Secured £'000</b>	<b>Total £'000</b>
A & B	29,845	524,989	554,834
C	9,419	-	9,419
D & E	13,961	-	13,961
<b>Total</b>	<b>53,225</b>	<b>524,989</b>	<b>578,214</b>

Set out below is the analysis of the closing balances of the Group and Company's credit assets split by the type of loan and the credit risk band as at 31 December 2019:

<b>Credit Risk Band</b>	<b>Unsecured £'000</b>	<b>Secured £'000</b>	<b>Total £'000</b>
A & B	102,930	475,796	578,726
C	14,790	150	14,940
D & E	17,486	-	17,486
<b>Total</b>	<b>135,206</b>	<b>475,946</b>	<b>611,152</b>

Each credit risk band is defined below:

<b>Credit Risk Band</b>	<b>Definition</b>
A	Highest quality with minimal indicators of credit risk
B	High quality, with minor adverse indicators
C	Medium-grade, moderate credit risk, may have some adverse credit risk indicators
D/E	Elevated credit risk, adverse indicators (e.g. lower borrowing ability, credit history, existing debt)

The Group ensures that it only deposits cash balances with institutions with appropriate financial standing or those deemed to be systemically important.

### **Liquidity risk**

Liquidity risk is the risk that the Group will be unable meet its obligations in respect of financial liabilities as they fall due. The Group manages its liquid resources to ensure sufficient cash is available to meet its expected contractual commitments. It monitors the level of short-term funding and balances the need for access to short-term funding, with the long-term funding needs of the Group.

A substantial proportion of the Group's net assets are in loans, whose cash collections could be utilised to meet funding requirements if necessary. The Group has the power, under its Articles of Association, to take out both short and long-term borrowings subject to a maximum value of one hundred percent of its share capital and reserves.

At 31 December 2020 the Company had a committed debt facility totalling £250.0 million with a maturity date of 4 September 2023. This facility includes a term and revolving facility secured on a range of assets. The Company also has a 2-year term facility that is structured as run-off financing in that the debt will paydown over the term of the facility and a £35m amortising term loan with a 49 year term, but where final repayment is expected in 2024 in line with the facility it is secured against.

The repayment terms and the covenants have been stress tested over the term of each of these facilities to ensure compliance.

### Assets and liabilities not carried at fair value but for which fair value is disclosed

For the Group for the year ended 31 December 2020:

Group	As Presented	Fair Value			
		Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Assets</b>					
Investments at amortised cost	547,737	22,175	-	538,314	560,489
Receivables	6,773	-	6,773	-	6,773
Cash and cash equivalents	62,548	62,548	-	-	62,548
<b>Total assets</b>	<b>617,058</b>	<b>84,723</b>	<b>6,773</b>	<b>538,314</b>	<b>629,810</b>
<b>Liabilities</b>					
Management fee payable	(1,040)	-	(1,040)	-	(1,040)
Performance fee payable	(2,300)	-	(2,300)	-	(2,300)
Other payables	(3,832)	-	(3,832)	-	(3,832)
Interest bearing borrowings	(273,539)	-	(273,539)	-	(273,539)
<b>Total liabilities</b>	<b>(280,711)</b>	<b>-</b>	<b>(280,711)</b>	<b>-</b>	<b>(280,711)</b>

For the Company for the year ended 31 December 2020:

Company	As Presented	Fair Value			
		Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Assets</b>					
Investments at amortised cost	547,737	22,175	-	538,314	560,489
Receivables	6,773	-	6,773	-	6,773
Cash and cash equivalents	59,673	59,673	-	-	59,673
<b>Total assets</b>	<b>614,183</b>	<b>81,848</b>	<b>6,773</b>	<b>538,314</b>	<b>626,935</b>
<b>Liabilities</b>					
Management fee payable	(1,040)	-	(1,040)	-	(1,040)
Performance fee payable	(2,300)	-	(2,300)	-	(2,300)

Other payables	(3,429)	-	(3,429)	-	(3,429)
Deemed Loan	(103,719)	-	(103,719)	-	(103,719)
Interest bearing borrowings	(167,348)	-	(167,348)	-	(167,348)
<b>Total liabilities</b>	<b>(277,836)</b>	<b>-</b>	<b>(277,836)</b>	<b>-</b>	<b>(277,836)</b>

For the Group for the year ended 31 December 2019:

Group	As Presented	Fair Value			
		Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Assets</b>					
Investments at amortised cost	580,998	14,492	-	565,820	580,312
Receivables	8,875	-	8,875	-	8,875
Cash and cash equivalents	15,154	15,154	-	-	15,154
<b>Total assets</b>	<b>605,027</b>	<b>29,646</b>	<b>8,875</b>	<b>565,820</b>	<b>604,341</b>
<b>Liabilities</b>					
Management fee payable	511	-	511	-	511
Performance fee payable	3,468	-	3,468	-	3,468
Other payables	2,326	-	2,326	-	2,326
Interest bearing borrowings	206,792	-	206,792	-	206,792
<b>Total liabilities</b>	<b>213,097</b>	<b>-</b>	<b>213,097</b>	<b>-</b>	<b>213,097</b>

For the Company for the year ended 31 December 2019:

Company	As Presented	Fair Value			
		Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Assets</b>					
Investments at amortised cost	580,998	14,492	-	565,820	580,312
Receivables	8,325	-	8,325	-	8,325
Cash and cash equivalents	13,251	13,251	-	-	13,251
<b>Total assets</b>	<b>602,574</b>	<b>27,743</b>	<b>8,325</b>	<b>565,820</b>	<b>601,888</b>
<b>Liabilities</b>					
Management fee payable	511	-	511	-	511
Performance fee payable	3,468	-	3,468	-	3,468
Other payables	1,805	-	1,805	-	1,805
Deemed Loan	78,613	-	78,613	-	78,613
Interest bearing borrowings	130,741	-	130,741	-	130,741
<b>Total liabilities</b>	<b>215,138</b>	<b>-</b>	<b>215,138</b>	<b>-</b>	<b>215,138</b>

Categorisation within the hierarchy has been determined based on the lowest level input that is significant to the fair value measurement of the relevant asset or liability (see Notes 12 and 13 for details). Further details of the loans at amortised cost held by the Group can be found in Note 11 to the financial statements.

## 16. FIXED ASSETS

The tables below set out the movement in Fixed Assets for the Group and Company.

Year ended 31 December 2020	IT Development and Software £'000	Total £'000
Opening net book amount	41	41
Additions	-	-
Amortisation charge	(41)	(41)
<b>Closing net book amount</b>	<b>-</b>	<b>-</b>
As at 31 December 2020		
Cost	830	830
Accumulated amortisation	(830)	(830)
<b>Net book amount</b>	<b>-</b>	<b>-</b>

Year ended 31 December 2019	IT Development and Software £'000	Total £'000
Opening net book amount	217	217
Additions	-	-
Amortisation charge	(176)	(176)
<b>Closing net book amount</b>	<b>41</b>	<b>41</b>
As at 31 December 2019		
Cost	830	830
Accumulated amortisation	(789)	(789)
<b>Net book amount</b>	<b>41</b>	<b>41</b>

## 17. RECEIVABLES

The table below set out a breakdown of the Group receivables.

Group	31 December 2020 £'000	31 December 2019 £'000
Prepayments and other debtors	4,820	2,656
Amounts due from platforms	1,820	5,889
Other receivables	133	330
<b>Total receivables</b>	<b>6,773</b>	<b>8,875</b>

The table below set out a breakdown of the Company receivables.

Company	31 December 2020 £'000	31 December 2019 £'000
Prepayments and other debtors	4,820	2,106
Amounts due from platforms	1,820	5,889
Other receivables	133	330
<b>Total receivables</b>	<b>6,773</b>	<b>8,325</b>

The above receivables do not carry any interest and are short term in nature. The Directors consider that the carrying values of these receivables approximate their fair value.

Amounts due from platforms relate to cash that has been collected by the platform partners but not yet remitted to the Group, whereby the credit asset at amortised cost has been treated as if this cash had been received.

## 18. OTHER PAYABLES

The table below set out a breakdown of the Group payables.

Group	31 December 2020 £'000	31 December 2019 £'000
Accruals and other payables	3,832	2,326
<b>Total other payables</b>	<b>3,832</b>	<b>2,326</b>

The table below set out a breakdown of the Company payables.

Company	31 December 2020 £'000	31 December 2019 £'000
Accruals and other payables	3,429	1,805
<b>Total other payables</b>	<b>3,429</b>	<b>1,805</b>

## Withholding Taxation

The Company's revenue income from loans is subject to tax, but offset by the interest distribution paid, which has the effect of reducing that corporation tax to nil. This means the interest distribution may be taxable in the hands of the Company's shareholders. There is no withholding tax payable by the Company at 31 December 2020 (31 December 2019: £nil) due to the changes made in 2017 Finance Act whereby all interest distributions will be paid gross of tax, therefore withholding tax is retained by the Company and paid directly to HMRC.

## 19. INTEREST BEARING BORROWINGS

The table below sets out a breakdown of the Group's interest-bearing borrowings.

Group	31 December 2020 £'000	31 December 2019 £'000
<b>Current Liabilities</b>		
Credit facility	20,916	130,000
Interest and commitment fees payable	183	741
Prepaid interest and commitment fees	(234)	-
<b>Total current liabilities</b>	<b>20,865</b>	<b>130,741</b>
<b>Non-Current Liabilities</b>		
Credit facility	256,438	75,946
Interest and commitment fees payable	-	105
Prepaid interest and commitment fees	(3,764)	-
<b>Total non-current liabilities</b>	<b>252,674</b>	<b>76,051</b>
<b>Total interest-bearing borrowings</b>	<b>273,539</b>	<b>206,792</b>

The table below sets out a breakdown of the Company's interest-bearing borrowings.

Company	31 December 2020 £'000	31 December 2019 £'000
<b>Current Liabilities</b>		
Credit facility	-	130,000

Interest and commitment fees payable	73	741
Prepaid interest and commitment fees	-	-
<b>Total current liabilities</b>	<b>73</b>	<b>130,741</b>
<b>Non-Current Liabilities</b>		
Credit facility	170,000	-
Interest and commitment fees payable	-	-
Prepaid interest and commitment fees	(2,725)	-
<b>Total non-current liabilities</b>	<b>167,275</b>	<b>-</b>
<b>Total interest-bearing borrowings</b>	<b>167,348</b>	<b>130,741</b>

At 31 December 2019 the Company's main debt facility was £150 million with The Royal Bank of Scotland plc as agent. The facility was secured upon the assets of the Company and had a maturity date of 20 March 2020. Interest is charged at one, three or six-month LIBOR plus a margin. The credit facility was syndicated. This facility was subsequently extended to 19 June 2020 and then terminated in May 2020.

In May 2020 this facility was refinanced with a different lender, with £125.0 million capacity and the maturity extended to May 2021. Interest was changed at one, three or six month LIBOR plus a margin. The Group retained the flexibility to refinance this facility, which took place in September 2020, at which point this new facility was terminated.

At 31 December 2020 the Company's main debt facility was a £250 million with Goldman Sachs, being a £170 million term loan and £80 million revolving credit facility. At 31 December 2020 the term loan was fully drawn with £nil drawn on the revolving element. Interest is charged at LIBOR plus a margin with the facility maturing in September 2023. The debt facility is secured against the Company's loan portfolios and other assets, in addition to the net exposures the Company holds where the Company is the junior lender to an SPV.

In August 2019, the Group entered a two-year debt facility to finance three residential mortgage portfolios, two commercial mortgage pools and a small unsecured consumer pool. These portfolios were previously leveraged through the Company level debt facility but getting assets specific leverage on these provides a lower cost of funding at a higher advance rate. The total debt raised on day one of this facility was £81.0 million. Interest is charged at LIBOR plus a margin. The facility was a 2-year term with a 1-year extension option and is structured as a run-off financing in that the debt will paydown over the term of the facility. During 2020 the 1-year extension was exercised and an additional mortgage portfolio was transferred into the pool. The facility therefore now expires in August 2022, by which time it is expected that the facility will be repaid in full. The carrying value of the portfolio of loans, which this facility is secured against, at 31 December 2020 was £93.6 million (2019: £92.6 million).

In December 2020, the Group entered into a £35 million debt facility secured against a structured SME facility, the carrying value of this structured SME facility at 31 December 2020 was £46.5 million. The debt facility charges LIBOR plus a margin and is an amortising term loan with the full £35 million drawn on day one. The facility has a 49 year term but final repayment is expected in 2024.

As at the 31 December 2020 the below related debt costs had been incurred by the Group.

<b>Group</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Interest and commitment fees payable	8,729	6,166
Other finance charges	5,594	2,251
<b>Total finance costs</b>	<b>14,323</b>	<b>8,417</b>

There were additional costs incurred in 2020 in other finance charges in relation to the refinances in May and September 2020. This was a combination of one-off costs to terminate the previous facilities and to expense any remaining set-up fees.

As at the 31 December 2020 the below related debt costs had been incurred by the Company.

<b>Company</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Interest and commitment fees payable	6,832	5,311
Other finance charges	5,210	2,138
<b>Total finance costs</b>	<b>12,042</b>	<b>7,449</b>

As part of IAS 7, "Statement of cash flows", an entity is required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

As at the 31 December 2020 the below changes occurred for the Group:

<b>Group</b>	<b>Total</b>
	<b>£'000</b>
At 1 January 2020	206,792
Drawdown of interest bearing borrowings	359,648
Repayments of interest-bearing borrowing	(289,013)
Finance costs	14,323
Interest paid on financing activities	(18,211)
<b>At 31 December 2020</b>	<b>273,539</b>

As at the 31 December 2020 the below changes occurred for the Company:

<b>Company</b>	<b>Total</b>
	<b>£'000</b>
At 1 January 2020	130,741
Drawdown of interest bearing borrowings	312,500
Repayments of interest-bearing borrowing	(272,752)
Finance costs	12,042
Interest paid on financing activities	(15,183)
<b>At 31 December 2020</b>	<b>167,348</b>

As at the 31 December 2019 the below changes occurred for the Group:

<b>Group</b>	<b>Total</b>
	<b>£'000</b>
At 1 January 2019	189,264
Drawdown of interest bearing borrowings	272,463
Repayments of interest-bearing borrowing	(255,517)
Finance costs	8,417
Interest paid on financing activities	(7,835)
<b>At 31 December 2019</b>	<b>206,792</b>

As at the 31 December 2019 the below changes occurred for the Company:

<b>Company</b>	<b>Total</b>
	<b>£'000</b>
At 1 January 2019	189,263
Drawdown of interest bearing borrowings	191,500

Repayments of interest-bearing borrowing	(250,500)
Finance costs	7,450
Interest paid on financing activities	(6,972)
<b>At 31 December 2019</b>	<b>130,741</b>

The below table analyses the Group's financial liabilities into relevant maturity groupings as well as expected future interest and commitment fee costs based on the remaining period at the Consolidated Statement of Financial Position date to the final scheduled maturity date.

<b>2020 Group Financial instrument</b>	<b>&lt; 1 year £'000</b>	<b>1 – 5 years £'000</b>	<b>Total £'000</b>
Credit facility	20,865	256,490	277,355
Interest and commitment fees payable	9,691	18,189	27,880
<b>Total exposure</b>	<b>30,556</b>	<b>274,679</b>	<b>305,235</b>

The below table analyses the Company's financial liabilities into relevant maturity groupings as well as expected future interest and commitment fee costs based on the remaining period at the Statement of Financial Position date to the final scheduled maturity date.

<b>2020 Company Financial instrument</b>	<b>&lt; 1 year £'000</b>	<b>1 – 5 years £'000</b>	<b>Total £'000</b>
Credit facility	-	170,000	170,000
Interest and commitment fees payable	7,310	16,448	23,758
<b>Total exposure</b>	<b>7,310</b>	<b>196,448</b>	<b>193,758</b>

The below table analyses the Group's financial liabilities into relevant maturity groupings as well as expected future interest and commitment fee costs based on the remaining period at the Consolidated Statement of Financial Position date to the final scheduled maturity date.

<b>2019 Group Financial instrument</b>	<b>&lt; 1 year £'000</b>	<b>1 – 5 years £'000</b>	<b>Total £'000</b>
Credit facility	130,741	75,205	205,946
Interest and commitment fees payable	3,484	1,475	4,959
<b>Total exposure</b>	<b>134,225</b>	<b>76,680</b>	<b>210,905</b>

The below table analyses the Company's financial liabilities into relevant maturity groupings as well as expected future interest and commitment fee costs based on the remaining period at the Statement of Financial Position date to the final scheduled maturity date.

<b>2019 Company Financial instrument</b>	<b>&lt; 1 year £'000</b>	<b>1 – 5 years £'000</b>	<b>Total £'000</b>
Credit facility	130,000	-	130,000
Interest and commitment fees payable	1,272	-	1,272
<b>Total exposure</b>	<b>131,272</b>	<b>-</b>	<b>131,272</b>

## 20. DEEMED LOAN

The Company has two deemed loans as at 31 December 2020 (one as at 31 December 2019). Deemed loans can only relate to the Company as they relate to loans originated by the Company and subsequently sold to a special purpose entity. Although the loans are not legally owned by the Company, the Company maintains the economic benefit of the underlying assets and therefore does not meet the criteria to derecognise as the economic exposure associated with the rights inherent in the asset are maintained. As the requirements of derecognition have not been met the Company has a deemed loan liability to the special purpose entity. As at the 31 December 2020 the Company had the below deemed loans:

Opening as at 1 January 2020 £'000	Novations/ (Redemptions) £'000	Closing as at 31 December 2020 £'000
78,612	25,107	103,719
<b>78,612</b>	<b>25,107</b>	<b>103,719</b>

As at the 31 December 2019 the Company had the below deemed loan:

Opening as at 1 January 2019 £'000	Novations/ (Redemptions) £'000	Closing as at 31 December 2019 £'000
-	78,612	78,612
-	<b>78,612</b>	<b>78,612</b>

## 21. ORDINARY SHARE CAPITAL

The table below details the issued share capital of the Company as at the date of the Financial Statements.

	31 December 2020	31 December 2019
No. Issued, allotted and fully paid ordinary shares of £0.01 each	35,259,741	39,449,919
Cost £'000	352	394

On incorporation, the issued share capital of the Company was £50,000.01 represented by one ordinary share of 1p and 50,000 management shares of £1 each, all of which were held by Honeycomb Holdings Limited as subscriber to the Company's memorandum of association. The ordinary share and management shares were fully paid up.

The management shares, which were issued to enable the Company to obtain a certificate of entitlement to conduct business and to borrow under Section 761 of the Companies Act 2006, were redeemed immediately following admission of 23 December 2015 out of the proceeds of the issue.

On 23 December 2015, 10,000,000 ordinary shares of 1p each were issued to shareholders as part of the placing and offer for subscription in accordance with the Company's prospectus dated 18 December 2015.

During 2016 a further 9,926,109 ordinary shares were issued. The price paid per share ranged from 1,000 pence to 1,015 pence and the total paid for the shares during the period amounted to £98.8 million.

On 31 May 2017 the Company announced the successful completion of a placing of a further 10,000,000 ordinary shares. The price paid per share was 1,050p and the total paid for the shares during the year amounted to £103.3 million net of issue costs.

On 25 April 2018 the Company announced the successful completion of a placing of a further 9,523,809 ordinary shares. The price paid per share was 1,050p and the total paid for the shares during the year amounted to £97.8 million net of issue costs.

On 10 August 2020 the Company announced the implementation of a share buyback programme, pursuant to the authority granted at the Company's Annual General Meeting held on 26 June 2020, to purchase the Company's ordinary shares of £0.01 each. The Board believes that implementation of an active share price discount management strategy through this Buyback Programme works in the best interest of the Company's shareholders and will be value accretive

to the Company. As at 31 December 2020 the Company had bought back 4,190,178 shares at an average price of 821p (equivalent to a discount of 122p per share against the 31 December 2020 price).

The table below shows the movement in shares during the period to 31 December 2020:

	Shares in issue at the beginning of the period	Buyback of Ordinary Shares	Shares in issue at the end of the period
Ordinary Shares	39,449,919	(4,190,178)	35,259,741
Treasury Shares	-	4,190,178	4,190,178

## 22. SPECIAL DISTRIBUTABLE RESERVE

At a general meeting of the Company held on 14 December 2015, special resolutions were passed approving the cancellation of the amount standing to the credit of the Company's share premium account as at 23 December 2015.

Following the approval of the Court and the subsequent registration of the Court order with the Registrar of Companies on 21 March 2016, the reduction became effective. Accordingly, £98.1 million, previously held in the share premium account, has been transferred to the special distributable reserve as disclosed in the Statement of Financial Position.

During the year £4.50 million (2019: £0.62 million) of the special distributable reserve was used to pay the Q2 2020 and Q3 2020 dividends.

During the year the Company repurchased 4,190,178 shares (2019:nil) for £34.82 million using the special distributable reserve.

## 23. INVESTMENTS IN SUBSIDIARIES

On 20 June 2019 the Group incorporated Sting Funding Limited ("Sting"), a limited Company incorporated under the law of England and Wales. The company is registered at 1 Bartholomew Lane, London, United Kingdom, EC2N 2AX. The Group is considered to control Sting through holding 100 per cent of the issued shares. As a result, the financial statements for the years ended 31 December 2019 and 31 December 2020 are prepared on a consolidated basis. Sting became active on 28 August 2019 when it drew down on a debt facility backed by commercial and second charge residential mortgages.

The Company also consolidates a structured entity, Bud Funding Limited ("Bud"), a limited company incorporated under the law of England and Wales. The company is registered at 1 Bartholomew Lane, London, United Kingdom, EC2N 2AX. The Company is considered to control Bud through its exposure to the variable returns of the vehicle through holding of a junior note issued by it and by way of control exerted through its involvement in the initial creation of Bud and in the absence of another entity now having control. Bud was incorporated on 2 November 2020 and the junior note was funded on 2 December 2020, at which point the control began. The total assets held in Bud at 31 December 2020 were £49.7 million with net assets of £177,000.

## 24. INVESTMENTS IN ASSOCIATES

As at 31 December 2019, the Company had a single associate, being a 34.6 per cent investment in Allium Lending Group Limited ("Allium") (formally GDFC Group Limited, Hiber Limited and The Green Deal Finance Company Limited). The company number is 10028311 its registered office is Imperial House, 15 – 19 Kingsway, London, WC2B 6UN.

The Company disposed of its investment in Allium in August 2020 with no gain or loss recognised on disposal.

## 25. NET ASSET VALUE PER ORDINARY SHARE

	31 December 2020	31 December 2019
Net asset value per ordinary share pence	1,013.1p	1,014.9p
Net assets attributable £'000	357,232	400,361

The net asset value per ordinary share as at 31 December 2019 is based on net assets at the year-end of £357.2 million and on 35,259,741 ordinary shares in issue at the year-end.

The net asset value per ordinary share as at 31 December 2020 is based on net assets at the year-end of £400.4 million and on 39,449,919 ordinary shares in issue at the year-end.

## 26. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 31 December 2020 and 31 December 2019 there were no contingent liabilities or capital commitments for the Group. In respect of Credit Assets held, the Group had £95.3 million (2019: £96.1 million) of undrawn committed structured credit facilities at 31 December 2020 and £48.2 million (2019: £4.5 million) of undrawn commitments in relation to secured real estate loans.

## 27. RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH THE INVESTMENT MANAGER

IAS 24 'Related party disclosures' requires the disclosure of the details of material transactions between the Company and any related parties. Accordingly, the disclosures required are set out below:

**Associates** – at 31 December 2020 Allium Lending Group Limited (formally GDFC Group Limited, Hiber Limited and The Green Deal Finance Company Limited), is no longer an associate of the Company, at 31 December 2019 it was an associate and held outstanding loan balance from structured facilities totalling £8.7 million and accrued interest of £1.1 million.

**Directors** – The remuneration of the Directors is set out in the Directors' Remuneration Report. There were no contracts subsisting during or at the end of the year in which a Director of the Company is or was interested and which are or were significant in relation to the Company's business. There were no other transactions during the year with the Directors of the Company. The Directors do not hold any ordinary shares of the Company.

At 31 December 2020, there was £nil (2019: £nil) payable to the Directors for fees and expenses.

Joanne Lake was appointed as a Director on 1 January 2021 and is a Director of Morses Club plc ("Morses"), an entity for which the Company provides a facility. As at 31 December 2020 the facility was drawn at £2.8 million. The facility was signed in April 2020, prior to discussions beginning with the Company about her role as non-executive Director.

**Investment Manager** – Pollen Street Capital Limited (the 'Investment Manager'), a UK-based company authorised and regulated by the FCA, has been appointed the Company's investment manager and AIFM for the purposes of the AIFMD. Details of the services provided by the Investment Manager and the fees paid are given on Note 6 to the financial statements.

During the year the Group paid £8.24 million (2018: £9.53 million) of fees and at 31 December 2019, there was £3.34 million (2019: £3.98 million) payable to the Investment Manager.

The Group considers all transactions with the Manager or companies that are controlled by the Manager as related party transactions.

Oplo Group Limited ("Oplo", formerly 1<sup>st</sup> Stop Group) is an English based consumer lender. During the year the Company had a structured facility to Oplo secured on a granular pool of consumer loans. Oplo is owned by a fund that is managed by an affiliate of the Investment Manager. As at 31 December 2020 the facility was £35.0 million drawn (31 December 2019: £28.0 million). The Group also had a forward flow relationship in place with Oplo in which the Group provided £22.3 million (31 December 2019: £11.1 million) and these loans have an outstanding balance as at 31 December 2020 of £30.0 million (31 December 2019: £10.6 million).

Shawbrook Group PLC ("Shawbrook") is a specialist SME and consumer lending and savings bank. Shawbrook is 50 per cent owned by funds that are managed by the Investment Manager. During the Year the Company purchased bonds issued by Shawbrook. The bonds were acquired in the secondary market from an unrelated third party at an arm's length price. The exposure at 31 December 2020 was £11.4m (31 December 2019: nil).

The Company also carried out FX hedging with Infinity International Limited ("Infinity") in relation to some Euro development finance that it had entered during the year. Infinity is owned by a fund that is managed by an affiliate of the Investment Manager. The exposure at 31 December 2020 is disclosed in Note 14.

**Origination Partner** – Honeycomb Finance Limited

During the year that the Origination Partner was part of the same group as the Investment Manager, the fees payable to the Origination Partner by the Company were deducted from the management fee payable to the Investment Manager and totalled £36,668 (2019: £38,574), and at 31 December 2020, there was £nil (2019: £nil) payable to the Origination Partner.

## 28. ULTIMATE CONTROLLING PARTY

It is the opinion of the Directors that there is no ultimate controlling party.

## 29. SUBSEQUENT EVENTS

On 25 March 2021, a dividend of 20.0 pence per ordinary share was paid.

On 29 April 2021, a dividend of 20.0 pence per ordinary share was approved for payment on 25 June 2021.

## Shareholders' Information

### Directors, Portfolio Manager and Advisers

#### Directors

Robert Sharpe  
Jim Coyle  
Richard Rowney  
Joanne Lake  
*all at the registered office below*

#### Registered Office

6th Floor  
65 Gresham Street  
London EC2V 7NQ  
England

#### Investment Manager and AIFM

Pollen Street Capital Limited  
11 – 12 Hanover Square  
London W1S 1JJ  
England

#### Financial Advisers and Brokers

Liberum Capital Limited  
Level 12, Ropemaker Place  
25 Ropemaker Place  
London EC2Y 9LY  
England

Centos Securities plc  
6.7.8 Tokenhouse Yard  
London EC2R 7AS  
England

#### Custodian

Sparkasse Bank Malta PLC  
101 Townsquare  
Sliema SLM3112  
Malta

#### Website

<http://www.honeycombplc.com/>

#### Share Identifiers

ISIN: GB00BYZV3G25  
Sedol: BYZV3G2  
Ticker: HONY

#### Administrator

Apex Fund Services (UK) Ltd  
5th Floor, Bastion House  
140 London Wall  
London EC2Y 5DN  
England

#### Depository

Indos Financial Limited  
5th Floor 54 Fenchurch Street  
London EC3M 3JY  
England

#### Registrar

Computershare Investor Services PLC  
The Pavilions, Bridgewater Road  
Bristol BS99 6ZZ  
England

#### Company Secretary

Link Company Matters Limited  
6th Floor  
65 Gresham Street  
London EC2V 7NQ  
England

#### Independent Auditors

PricewaterhouseCoopers LLP  
7 More London Riverside  
London SE1 2RT  
England

## **Website**

The Company's website can be found at [www.honeycombplc.com](http://www.honeycombplc.com). The site provides visitors with Company information and literature downloads.

The Company's profile is also available on third-party sites such as [www.trustnet.com](http://www.trustnet.com) and [www.morningstar.co.uk](http://www.morningstar.co.uk).

## **Annual and half-yearly reports**

Copies of the annual and half-yearly reports may be obtained from the Company Secretary by calling 020 7954 9552 or by visiting [www.honeycombplc.com](http://www.honeycombplc.com).

## **Share prices and Net Asset Value information**

The Company's ordinary shares of 1p each are quoted on the London Stock Exchange:

- SEDOL number: BYZV3G2
- ISIN number: GB00BYZV3G25
- EPIC code: HONY

The codes above may be required to access trading information relating to the Company on the internet.

## **Electronic communications with the Company**

The Group's Consolidated Annual Report & audited financial statements, half-yearly reports and other formal communications are available on the Company's website. To reduce costs the Company's half-yearly financial statements are not posted to shareholders but are instead made available on the Company's website.

## **Whistleblowing**

As the Company has no employees, the Company does not have a whistleblowing policy. The Audit Committee reviews the whistleblowing procedures of the Investment Manager and Administrator to ensure that the concerns of their staff may be raised in a confidential manner.

## **Warning to shareholders – share fraud scams**

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way, you will probably lose your money.

## **How to avoid share fraud**

- Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call
- Check the Financial Services Register from [www.fca.org.uk](http://www.fca.org.uk) to see if the person and firm contacting you is authorised by the FCA
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details
- Use the firm's contact details listed on the Register if you want to call it back
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date
- Search the list of unauthorised firms to avoid at [www.fca.org.uk/scams](http://www.fca.org.uk/scams)
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money
- Remember: if it sounds too good to be true, it probably is!

5,000 people contact the Financial Conduct Authority about share fraud each year, with victims losing an average of £20,000.

## **Report a scam**

If you are approached by fraudsters, please tell the FCA using the share fraud reporting form at [fca.org.uk/scams](http://fca.org.uk/scams), where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters, you should contact Action Fraud on 0300 123 2040. Definitions and reconciliation to alternative performance measures

## DEFINITIONS AND RECONCILIATION TO ALTERNATIVE PERFORMANCE MEASURES

<b>Credit Assets</b>	Credit Assets are loans made to consumers and small businesses as well as other counterparties, together with related investments.
<b>Equity Assets</b>	Equity Assets are selected equity investments that are aligned with the Company's strategy and that present opportunities to enhance the Company's returns from its investments.
<b>Net asset value ("NAV")</b>	Net asset value represents the total value of the Group's assets less the total value of its liabilities. For valuation purposes, it is common to express the NAV on a per share basis.
<b>Ongoing Charges</b>	Ongoing charges is calculated as a percentage of annualised ongoing charge over average reported NAV. Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future.
<b>Premium</b>	If the share price of the Company is higher than the NAV per share, the Company's shares are said to be trading at a premium. The premium is shown as a percentage of the NAV.
<b>Discount</b>	If the share price of the Company is lower than the NAV per share, the Company's shares are said to be trading at a discount. The discount is shown as a percentage of the NAV.
<b>Fair Value</b>	The amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.
<b>Registrar</b>	An entity that manages the Company's shareholder register. The Company's registrar is Computershare Investor Services PLC.
<b>Alternative Investment Fund ("AIF")</b>	An AIF, as defined in the AIFM Directive 2011/61/EU on Alternative Investment Fund Managers.
<b>LIBOR ("London Inter-Bank Offered Rate")</b>	The interest rate participating banks offer to other banks for loans on the London market.
<b>Structured Loan</b>	Credit Asset whereby the Group typically has senior secured loans to speciality finance companies, whereby the security on our investment comprises the assets originated by the speciality finance company and the company provides the 'first loss' in the form of 'real capital' whilst the Company provides the senior capital. Corporate guarantees also typically taken
<b>Whole Loan</b>	Credit Assets whereby the Group is exposed to the consumer or SME underlying risk and rewards of the loan
<b>Direct Portfolio</b>	Portfolios of loans owned directly by the Group, typically secured on property
<b>AIFM</b>	An Alternative Investment Fund Manager, as defined in the AIFM Directive. Pollen Street Capital Limited undertakes this role on behalf of the Company.
<b>Consumer Loan</b>	An amount of money lent to an individual for personal, family, or household purposes.
<b>Servicers</b>	Comprehensive loan servicing to support the full loan lifecycle, from origination, through account servicing to arrears management.
<b>Hedging</b>	An investment to reduce the risk of adverse price movements in an asset.

## RECONCILIATION TO ALTERNATIVE PERFORMANCE MEASURES

### Premium / (Discount) to NAV per share

	31 December 2020	31 December 2019
NAV per share (Cum income)	1,013.1p	1,014.9p
Share Price at Close	942.5p	972.5p
<b>Premium / (Discount)</b>	<b>(7.0)%</b>	<b>(4.2)%</b>

The premium / (discount) to NAV per share is calculated by taking the difference between the share price at close and the NAV per share (Cum income) and dividing it by the NAV per share.

### Annual NAV per Share Return

	31 December 2020	31 December 2019
NAV per share (Cum income) at year end	1,013.1p	1,014.9p
Opening NAV per share (Cum income)	1,014.9p	1,015.7p
Dividends per share paid in the year	80.0p	80.0p
<b>Annual Nav per Share Return</b>	<b>7.7%</b>	<b>7.8%</b>

The annual NAV per share return is calculated by taking the total of the closing NAV per share (cum income) at year end, adding the dividend per share paid in the year and subtracting the opening NAV per share (Cum Income), divided by the opening NAV per share (cum income).

### Inception to Date (“ITD”) NAV per Share Return

	31 December 2020	31 December 2019
NAV per share (Cum income)	1,013.1p	1,014.9p
Opening NAV per share (Cum income) at inception	982.0p	982.0p
Dividends per share paid since inception	372.9p	292.9p
<b>ITD NAV per Share Return</b>	<b>41.1%</b>	<b>33.2%</b>

The ITD NAV per share return is calculated by taking the total of the closing NAV per share (cum income) at year end and adding the dividend per share paid since inception and subtracting the opening NAV per share (Cum Income) at inception, divided by the NAV per share (cum income) at inception.

### Debt to Equity

	31 December 2020 (£'000)	31 December 2019 (£'000)
Net Asset Value	357,232	400,361
Interest Bearing Borrowings	273,539	206,792
<b>Debt to Equity ratio</b>	<b>76.6%</b>	<b>51.7%</b>
Cash and cash equivalents	62,548	15,154
<b>Net Debt to Equity Ratio</b>	<b>59.1%</b>	<b>47.9%</b>

Debt to equity ratio is calculated as the Group's interest-bearing debt divided by the net asset value expressed as a percentage. Net Debt to equity ratio is calculated as the Group's interest-bearing debt less cash and cash equivalents, divided by the net asset value expressed as a percentage.

### Dividend Return

	31 December 2020	31 December 2019
Dividend declared (pence per share)	80.0	80.0
IPO issue price (pence per share)	1,000.0	1,000.0
<b>Dividend Return</b>	<b>8.0%</b>	<b>8.0%</b>

Dividend return is calculated as the total declared dividends for the period divided by IPO issue price.

### Ongoing Charges

	31 December 2020 (£'000)	31 December 2019 (£'000)
Auditors' remuneration	287	160
Administrator's fees	148	192
Directors' fees	200	149
Management Fee	5,942	6,066
Other costs	908	673
Average NAV	373,853	402,619

<b>Ongoing Charges</b>	<b>2.0%</b>	<b>1.8%</b>
------------------------	-------------	-------------

Ongoing charges ratio: The Annualised Ongoing Charge is calculated using the Association of Investment Companies recommended methodology. It is calculated as a percentage of annualised ongoing charge over average reported Net Asset Value. Average NAV is calculated as the average of the previous 12 months published monthly NAV's. Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the costs of acquisition/disposal of investments, financing charges and gains/losses arising on investments. Ongoing charges are based on costs incurred in the year as being the best estimate of future costs. The AIC excludes performance fees from the Ongoing Charges calculation.

### NAV Return Bridge

	<b>2020</b>
	<b>£'000</b>
Monthly Average Credit Assets	551,480
Monthly Average NAV Excluding Leverage	588,936
Monthly Average NAV	373,880

Monthly Average Credit Assets is the mean of the aggregate of the credit assets at amortised cost, credit assets held at fair value through profit or loss and derivative assets held at fair value through profit or loss for each month end from 31 December 2019 to 31 December 2020, inclusive.

Monthly Average NAV Excluding Leverage is the mean of the net assets of the Group, excluding interest bearing borrowings, for each month end 31 December 2019 to 31 December 2020, inclusive.

Monthly Average NAV is the mean of the net assets of the Group for month end from 31 December 2019 to 31 December 2020 inclusive.

	<b>2020</b>	
Investment Yield	9.4%	Investment yield is calculated as Interest Income on credit assets at amortised cost, plus Income/(loss) on credit assets at fair value through profit and loss, less third party servicing, divided by Monthly Average Credit Assets, excluding one-off charges.
Impairments and write-offs	(0.6%)	Impairments and write-offs is calculated as credit impairment losses before £2.3m of one-off charges relating to expected Covid-19 charges not yet incurred, over Monthly Average Credit Assets
Credit asset return	8.8%	Credit asset return is a sub-total of the above
Equity and working capital	(0.6%)	The impact of equity and working capital is calculated as the Statement of Comprehensive Income amounts above plus Income / (Loss) on equity assets at fair value through profit and loss divided by Monthly Average NAV Excluding Leverage, less the impact of items already disclosed above
Effect of leverage	2.1%	Effect of leverage is calculated as the above Statement of Comprehensive Income amounts above plus finance costs before one-off charges of £4.3m divided by Monthly Average NAV, less the impact of items already disclosed above
Investment Manager fees	(2.2%)	Calculated as Management fee and Performance fee divided by Monthly Average NAV
Fund Opex	(0.5%)	Calculated as Fund expenses excluding the £865,000 of one-off disclosed in Note 7, divided by Monthly Average NAV
Underlying NAV return	7.6%	Calculated as a sub-total of the above
One-off Effects	0.1%	The impact of the one-off items remaining, including the effect of share buybacks, to reach the Annual NAV per Share Return
<b>NAV return</b>	<b>7.7%</b>	<b>Annual NAV per Share Return</b>