SQN SECURED INCOME FUND PLC

(Registered number 09682883)

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 30 June 2019

CONTENTS

	Page
Strategic Report	
Key Points	3
Overview and Investment Strategy	4
Chairman's Statement	6
Investment Manager's Report	8
Company Analytics as at 30 June 2019	14
Principal Risks	15
Environment, Employee, Social and Community Issues	16
Gender Diversity	16
Key Performance Indicators	17
Governance	
Board of Directors	18
Directors' Report	19
Statement of Directors' Responsibilities	23
Corporate Governance Report	24
Audit and Valuation Committee Report	27
Directors' Remuneration Report	29
Regulatory Disclosures	32
Independent Auditor's Report	33
Financial Statements	
Statement of Comprehensive Income	36
Statement of Changes in Equity	37
Statement of Financial Position	38
Statement of Cash Flows	39
Notes to the Financial Statements	40
Annual General Meeting	
Notice of Annual General Meeting	61
Directors and Advisers	65

KEY POINTS

30 JUNE 2019

NET ASSETS[1]

£50,129,000

(30 June 2018: £51,539,000)

DIVIDEND PER SHARE DECLARED IN RESPECT OF THE YEAR

7.00p

(30 June 2018: 6.30p)

NAV PER ORDINARY SHARE

95.10p

(30 June 2018: 97.78p)

DIVIDEND COVER

0.79

(30 June 2018: 0.99)

SHARE PRICE

92.00p

(30 June 2018: 91.50p)

TOTAL RETURN PER ORDINARY SHARE (BASED ON NAV)

+4.4%

(30 June 2018: +5.4%)

DISCOUNT TO NAV

3.3%

(30 June 2018: 6.4%)

TOTAL RETURN PER ORDINARY SHARE (BASED ON SHARE PRICE)

+8.2%

(30 June 2018: 0.0%)

PROFIT FOR THE YEAR

£2,236,000

(30 June 2018: £2,809,000)

ORDINARY SHARES IN ISSUE

52,660,350

(30 June 2018: 52,660,350)

[1] *In addition to the Ordinary Shares in issue, 50,000 Management Shares of £1 each are in issue (see note 21).*

OVERVIEW AND INVESTMENT STRATEGY

General information

SQN Secured Income Fund plc (the “Company”, “Fund” or “SSIF”) was incorporated in England and Wales under the Companies Act 2006 on 13 July 2015 with registered number 09682883. It is an investment company, as defined in s833 of the Companies Act 2006. Its shares were admitted to trading on the London Stock Exchange Specialist Fund Segment on 23 September 2015 (“Admission”).

Investment objective

The investment objective of the Company is to provide Shareholders with attractive risk adjusted returns, principally in the form of regular, sustainable dividends, through investment predominantly in a range of secured loans and other secured loan-based instruments originated through a variety of channels and diversified by way of asset class, geography and duration.

Investment policy

The Company achieves its investment objective by investing in a range of secured loan assets mainly through wholesale secured lending opportunities, secured trade and receivable finance and other collateralised lending opportunities. Loan assets include both direct loans as well as other instruments with loan-based investment characteristics (for example, but not limited to, bonds, loan participations, syndicated loans, structured notes, collateralised obligations or hybrid securities) and may include (subject to the limit set out below) other types of investment (for example, equity or revenue- or profit-linked instruments). The Company may make investments through alternative lending platforms that present suitable investment opportunities identified by the Investment Manager (SQN Asset Management Limited (“SQN UK”) and SQN Capital Management, LLC (“SQN US”)).

The Company ensures that diversification of its portfolio is maintained, with the aim of spreading investment risk.

Geography

The Company invests in loan assets in a broad range of jurisdictions (although weighted towards the UK, Continental Europe and North America) in order to build a global portfolio of loan assets.

Asset classes

The Company invests in a wide range of loan assets, including: short-term lending such as invoice and supply chain financing; mid-term lending such as trade or short-term bridge finance; and long-term lending such as the provision of fixed term loans with standard covenants and subject to monthly or quarterly interest payments.

Duration

The Company holds a portfolio of loans and other loan-based instruments with a range of durations to maturity. This is intended to provide the Company with both a liquid pool of assets ready for realisation, as well as a reliable stream of longer-term income.

Security

The Company invests in loan assets with a range of different types of security. Typically, such security will be over a range of assets, including, but not limited to, property, intellectual property, tax credits, receivables, future income streams, pledges of shares or other specific assets, ownership of special purpose vehicles, personal or group company guarantees or via credit insurance, or a combination of these. Loan assets will be unsecured only in the case of short-term lending or investment, where the perceived level of risk in respect of the particular asset is low given the quality of the counterparty, credit assessment and design of the credit contract.

Sector

The Company is indifferent to sector when allocating funds for investment and, instead, adheres to the investment restrictions which apply to the Company’s loan portfolio as a whole in order to spread investment risk.

OVERVIEW AND INVESTMENT STRATEGY (CONTINUED)

Investment restrictions

The following investment restrictions (calculated based on the Company's gross assets at the time of investment or, if earlier, the date on which the Company commits to making the relevant investment) in respect of the deployment of the Company's capital have been established in pursuit of its aim to maintain a diversified investment portfolio and thus mitigate concentration risks:

Investment Restriction	*Investment Policy*
■ Geography	
– Exposure to UK loan assets	Minimum of 60%
– Minimum exposure to non-UK loan assets	20%
■ Duration to maturity	
– Minimum exposure to loan assets with duration of less than 6 months	None
– Maximum exposure to loan assets with duration of 6-18 months and 18-36 months	None
– Maximum exposure to loan assets with duration of more than 36 months	50%
■ Maximum single investment	10%
■ Maximum exposure to a single borrower or group	10%
■ Maximum exposure to loan assets sourced through a single alternative lending platform or other third party originator	25%
■ Maximum exposure to any individual wholesale loan arrangement	25%
■ Maximum exposure to loan assets which are neither sterling-denominated nor hedged back to sterling	15%
■ Maximum exposure to unsecured loan assets	25%
■ Maximum exposure to assets (excluding cash and cash-equivalent investments) which are not loans or investments with loan-based investment characteristics	10%

The Company will not invest in other listed closed-end investment funds.

Borrowing

The Company (including, for this purpose, any special purpose vehicles that may be established by the Company in connection with obtaining leverage against any of its assets) may employ borrowings (through bank or other facilities) of up to 35% of the Company's net asset value (calculated at the time of draw down), which includes, on a look-through basis, borrowings of any investee entity.

Hedging

The Company intends, to the extent it is able to do so on terms that the Manager considers to be commercially acceptable, to 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) with the sole intention of hedging the Company's non-Sterling currency exposure back to Sterling.

Cash management

The Company's un-invested or surplus capital or assets may be invested in cash or cash equivalents (including government or public securities (as defined in the rules of the FCA), money market instruments, bonds, commercial paper or other debt obligations with banks or other counterparties having a "single A" (or equivalent) or higher credit rating as determined by any internationally recognised rating agency selected by the Board (which may or may not be registered in the EU)). There is no limit to the amount of cash or cash equivalents that the Company may hold.

Changes to the investment policy

No material change will be made to the investment policy without the approval of Shareholders by ordinary resolution.

CHAIRMAN'S STATEMENT

Introduction

I am pleased to update Shareholders with my Chairman's Statement, covering the period from 1 July 2018 to 30 June 2019. Over the twelve month full financial year reporting period, the Company has continued to make excellent progress in reorganising the asset base to better reflect the secured and collateralised nature of the Investment Manager's core credit focus. Despite continued macro uncertainty caused by Brexit and wider geopolitical issues, income and steady NAV performance have been delivered for Shareholders.

The Company is a UK-listed specialist investment trust with a focus on secured investments that produce regular, collateralised income from investments made in a diversified portfolio of loans to lower middle market companies in the UK and the rest of the World.

Performance

During the reporting period, the Company was able to maintain steady income despite some NAV volatility resulting from legacy portfolio impairments. This income stability is a testament to the uncorrelated nature of the assets that the Company targets and the strong foundation the security associated with the direct lending strategy of the Investment Manager. All loans underwritten since April 2017 are performing in line with expectations and have met all their capital and interest commitments. The Investment Manager has also been moderately successful in limiting impairment risk from legacy loans via platforms within the portfolio by reducing this portion of the overall portfolio to £15.2 million of the total. This is in line with guidance given by the Investment Manager but it is noted that progress in reducing peer to peer loan exposure has slowed as the rump of the segment takes more resource and time to manage out.

For the reporting period ending 30 June 2019, the Company has generated a net profit of £2.2 million comprising of earnings per Ordinary Share of 4.25p. The Company's NAV at 30 June was £50.1 million (95.10p (cum income) per Ordinary Share) compared to £51.5 million (97.78p per Ordinary Share) as at 30 June 2018. The total return for the reporting period was 4.4%.

Foreign exchange exposure on the 16.9% of the total loans allocated to non-Sterling loans is fully hedged and any liquidity calls arising from the hedging strategy are considered manageable within the Company's cash flow even with increased volatility assigned to Brexit uncertainty.

Note that all returns are net of all fees and no gearing was applied to the portfolio during the reporting period.

Corporate Activity

As previously reported, during the first half of the year the Company appointed new corporate and legal advisors. From December 2018, FinnCap, Kepler Partners and Dickson Minto were duly appointed in their respective roles.

These counterparties have had a constructive and positive impact on Shareholder interaction and the second half of the reporting period was spent actively engaging with existing and potential new investors in the UK and further afield. It has been noted that there has been increased activity in stock acquisition from the retail sector of the market which has helped to maintain a consistent share price with very low volatility compared to other trusts of similar nature in the sector.

Despite retail interest, the Company has been unable to encourage large scale purchasing interest from the larger corporate sector and in particular discretionary wealth managers, to narrow the discount to NAV. In the main, this is due to increased concern regarding the sector and as investors made strategic decisions to divest from the UK. A reduction in the discount is essential to allow for further capital to be raised and so it is disappointing given the positive transformation the Company has undergone. On the other hand, it is unsurprising given increased uncertainty regarding the economic well-being of the UK should we leave the European Union.

Earnings and Dividends

Total earnings per Ordinary share for the reporting period were 4.25p.

The Company elected to designate all dividends for the period ended 30 June 2019 as interest distributions to its Shareholders. In doing so, the Company took advantage of UK tax treatment by "streaming" income from interest-bearing investments into dividends that will be taxed in the hands of Shareholders as interest income.

As set out in the Prospectus, the Company intends to distribute at least 85% of its distributable income by way of dividends on a monthly basis. During any year the Company may retain some of the distributable income as a loss reserve to smooth future dividend flows.

The Company reached its dividend target of 7.00p per annum in July 2019 and is on target to deliver a total return of at least 8.00% based on the portfolio as it stands today. During the reporting period, dividend cover has fluctuated due to specific transaction flows and the decision not to apply leverage until more platform and peer to peer investments had been removed from the portfolio. At the end of the reporting period, the Company can again report that income flow from new underwriting and committed deals has stabilised with dividend cover at sustainable levels for the second half of the year.

CHAIRMAN'S STATEMENT (CONTINUED)

Application of IFRS 9 Accounting Standards

In July 2018, the Company adopted new accounting standards that came into force during that year. As Shareholders will note, this standard requires the Company to quantify future expected losses. Due to changes in the circumstances of the legacy peer to peer businesses, the Company has made the decision that some impairment provisions should increase relating to these investments. The Board considers this to be a prudent approach. The Board notes that the Investment Manager has made strident efforts to mitigate risk associated with these legacy positions and will continue to monitor developments within these platforms.

Discount

During the reporting period, the Company traded at an average discount to NAV of 5.85%.

In normal market conditions, stabilisation of dividend cover and stable NAV performance would have resulted in a narrowing of discount to NAV. However, sector volatility and the sale of shares by two significant holders creating a stock overhang during most of the reporting period has led to a modest widening of the discount.

Board of Directors

No changes to the Board composition were made during the reporting period and there are no future plans to increase the number of directors until such time that we have sufficient funds under management to warrant such appointments.

The Board continues to engage with the Investment Manager and has regular communications in line with governance guidelines.

Outlook

The Company has delivered income in line with its mandate and continues to make progress in reassigning available cash to loans underwritten directly by the management team. The focus on risk management of legacy positions has been a particular focus of the Board and the Investment Manager has reduced further allocations to platform investments.

As the Company approaches 31 December 2019 when a Continuation Vote is required as total assets are less than £250 million, the Board has been considering three paths forward. The Company can continue as it is, it may also use as yet, unutilised gearing to achieve higher dividends in a range of 9.5%-10.5%. The Board considers this to be manageable without an increase in overall risk to the portfolio as more of the legacy portfolio is replaced with underwriting conducted by the Investment Manager. Secondly, the Board can present investors with a wind down plan that will likely take two or three years to execute with the objective of delivering investors total proceeds as close to NAV as possible less the unavoidable expenses required in the process. A third option has been considered, to propose that a new share class be issued to raise external capital to invest into a single segment of the investment strategy and enter into a share and asset swap on the current portfolio to provide liquidity to existing shareholders who wish to exit. However, after further consideration and consultation with several key shareholders, the Board has resolved not to pursue this option.

We thank investors for their continued support during this period of ongoing transformation for the Company and hope that the consistent high level of income has been welcome as the Board and the Investment Manager have successfully worked to rebalance the portfolio away from inherited asset classes that have proven so much more problematic to other portfolios and sought to improve liquidity with continuing campaigns to raise new capital.

KEN HILLEN
Chairman
15 October 2019

INVESTMENT MANAGER'S REPORT

Overview

We are pleased to report continued steady progress in delivering a 7.00p dividend and containment of NAV deterioration from legacy portfolio impairments. Despite these difficulties, the NAV performance remained relatively stable throughout the reporting period. Our investment approach has been to focus on collateral and seniority of position in the debt stack for all new investments, creating a firmer foundation for the portfolio than had previously been the case. This higher allocation to traditional underwriting has been undertaken alongside a considerable project to achieve stabilisation of the legacy portfolio inherited in April 2017.

The Company has successfully reduced peer to peer lending to only 7% of the portfolio and has reduced overall legacy exposure to £15.2 million. This continues to fall and will be accelerated by the run-off of our single biggest position in a co-invested venture debt book where we have started to receive cash sums as debt is refinanced. Impairments have been very low under IFRS 9 provisions, with a combined forward looking impairment provision of 2.22% including our recent reassessment of risks to platform investments. All developments for the portfolio have been achieved without the use of leverage for investment or working capital purposes. With Brexit uncertainty remaining a core theme for investors, we have analysed our direct loans and are comfortable that we have suitable downside protection embedded within the portfolio to sustain impact of a recession in the UK and mainland Europe. By contrast, the legacy peer to peer segment of the portfolio does present a continued risk of impairment, as this exposure continues to amortise down, we expect that the rump of the portfolio will remain a challenge.

Background

SQN is a credit focussed alternative investment manager with a successful track record in managing loans and asset backed financing to the lower mid-market, non-sponsored segment of the market. For our borrowers we provide transformational funding on a senior secured basis using a traditional merchant banking model. For our investors, we provide regular, covered income with a focus on risk mitigation and returns uncorrelated to other asset classes. As at June 2019, SQN had over a billion dollars of active unlevered investments across the SQN group, including SSIF. We manage ten funds in five jurisdictions and during the reporting period, achieved investment manager approval from the Central Bank of Ireland. We remain suitably resourced to deliver income and total return in line with the expectation we have set for SSIF. However, we are now fully invested to the capacity allowable given the run-off of legacy positions and need to consider imaginative options for future growth of Shareholder capital ahead of a continuation vote scheduled for December 2019.

Portfolio

We are focussed on underwriting of the highest quality in the lower middle market segment of the market with thirteen loans now underwritten by SQN, with an average of £2.6 million deployed per loan and at an average rate of 10.9%. Each loan has bespoke legal documentation and is designed to fit to the Company's and the borrower's requirements. There have been no late or missed payments in this portion of the portfolio underwritten by SQN and our covenant monitoring data is up to date. The outlook for the performance of these loans remains very good.

We have made a change to the way in which we categorise the legacy portfolio. With £15.2 million now held in this part of the portfolio, we have differentiated between peer to peer loans and those that are held in loan note structures with professional counterparties. These loans are larger in quantum and we have a closer relationship with the underlying companies. We have provided further details relating to these investments later in the report. The total number of loans via third parties have been reduced from 213 to 55 with a small number of loans amortising out of the portfolio each month. As mentioned above, peer to peer lending now represents only 7% of the portfolio.

No leverage was used throughout the reporting period. Given the nature of the investments and the less predictable nature of repayments from legacy positions, we continue to see this as a challenge with regard to timing of reinvestments. Despite this, we have paid close attention to delivering a covered dividend and can confirm that this is now stable, with expectation that it will remain so for the next year. We have provided a history of progress below:

	Gross Portfolio Yield	*Portfolio Yield including projected pipeline investments*	*Dividend Cover*	*Portfolio Cash %*
July 2018	10.32%	10.32%	0.97	9.92%
August 2018	10.07%	10.07%	0.78	12.55%
September 2018	8.54%	8.54%	0.82	23.65%
October 2018	7.26%	7.63%	0.65	32.95%
November 2018	7.64%	9.35%	0.72	30.25%
December 2018	8.52%	9.28%	0.73	21.29%
January 2019	8.55%	9.32%	0.79	20.62%
February 2019	8.75%	9.52%	0.84	17.89%
March 2019	9.23%	9.62%	0.81	12.64%
April 2019	10.41%	10.50%	0.84	2.22%
May 2019	10.46%	10.80%	0.97	5.76%
June 2019	10.38%	10.84%	0.82	6.42%
July 2019	9.76%	9.76%	0.92	5.24%
August 2019	9.77%	9.77%	1.01	5.22%

Source: SQN

INVESTMENT MANAGER'S REPORT (CONTINUED)

There were no breaches of investment restrictions without prior approval from the Board during the reporting period and all non-Sterling capital and income has been fully hedged. Fluctuations in the value of Sterling during the reporting period has made for some significant moves in the cost of this hedging and this has been mitigated by reducing brokerage costs and careful monitoring of timing of hedge rolls.

Risk Management

Brexit continues to dominate the investment landscape as delay in the exit of the UK from the European Union extended from March 2019 to October 2019. As previously reported, we have considered the risk associated with our current and future investments with great care and have approached this work from four dimensions; underwriting, currency, interest rates and duration.

- Underwriting is stress tested for a 10% fall in cash flows with little impact. Our loans are senior, collateralised and we focus on debt service ratios. We use bespoke legal structures allowing us to take control of bank accounts in extremis. Covenants remain in keeping with expectations but as a lender of over two decades' experience, we have never seen a default result from a non-financial breached covenant; cash management is the prerequisite factor we consider.
- All non-Sterling currency exposures are hedged. The Company has a Sterling base and Shareholders should expect to be hedged against adverse movements and we fulfil this requirement.
- All loans are fixed rate and our borrowers have a very low sensitivity to interest rate movements. The overall portfolio has no gearing and so has nil sensitivity to rates as a whole.
- As a fixed income manager, we monitor duration regularly. We have made great efforts to reduce duration and this has been successful. The single biggest duration contributor is our investment with BMS UK. However, as this fund is now in run-off, we expect the weighted average duration of the portfolio to diminish further over the following year.

SQN Underwritten Direct Loans

The following provides a narrative relating to some of our direct loan investments. Names of counterparties have been omitted for commercial and business sensitive reasons for our borrowers. All borrowers have made capital and interest payments during the reporting period and we are pleased to report that all interest and capital has been paid in accordance with our borrowers' loan agreements.

- Medical Services Provider in UK – the business is well managed and provides an essential medical service to the NHS and private practices in London and the north of England. Patient numbers weakened for part of the year but the average has met target expectations with Summer 2019 delivering the highest patient treatments since 2017. The business is in a sale process and we have covenants requiring the loan to be repaid in the event of change of control with penalty costs applied.
- Wholesale Lending Group – the business remains stable and has delivered expected returns to the Company. All loan-to-value investments have remained within their limit and all indicators are "green" status under our monitoring regime. We also receive a quarterly external audit of the performance of the business. There were some management changes during the reporting period that we were concerned about, including a new FD and origination manager, to replace retiring personnel. After a short period, where it became clear that these new hires were not a good cultural fit, the executive management have quickly addressed these decisions and re-established a stable team.
- Leasing Group – strong performance from a very good management team based in the north of England. The Company provides a facility to fund a number of transactions which are then refinanced via block discounters at cheaper rates.
- Laser and LED manufacturer – weaker performance compared to last year but this is due to a one off cost of relocation of the entire business from UK to Ireland. We are comfortable that interest and capital is all being repaid on time and that the business has suitable sales pipeline to meet their debt commitments.
- Marine Servicing Company – a service company specialising in renewable energy build and maintenance contracts as well as bridge and oil field service maintenance. The company expanded during the reporting period acquiring a significant fleet in the US as this was part of a strategic expansion plan implemented in 2018. They have equity support from a number of infrastructure investors. With this larger asset base and backed by strong and experienced shareholders, this company is well positioned to keep increasing its utilisation rates and to improve its profitability.
- Film Production Financing – Pre-sales and tax rebates plus completion insurance make these transactions offer the most balanced of risks for the rate of return and we have added comfort via a cross-collateralisation mechanism across all deals, providing healthy diversification. All assets are performing to expectation and within our monitoring guidelines. We keep a close business relationship with the principals and advise on SPV structuring and currency hedging.

All in all, this book of loans is performing to expectations and we consider that each company has suitable cash reserves and capacity for growth to sustain hard economic shocks. In volatile times, cash is the prevailing metric by which we judge our exposures. This is quite different to the obsession with strength of covenants that is so often the focus of high yield and leveraged loan investors. This was recently demonstrated when Wrightbus, the manufacturer of public transport vehicles, was placed into administration due to cash shortfall despite having a healthy order book.

INVESTMENT MANAGER'S REPORT (CONTINUED)

Legacy portfolio

Co-Investments

During the reporting period, SQN decided to reclassify the way in which the legacy portfolio is denoted. This reflects the specific difference between pure peer to peer, technology platform based lending and three investments that are characterised by professional co-investment alongside the British Business Bank and GLI. There has been some significant corporate change for all three of these investments and we provide the following narrative:

UK Venture Debt – two of the three principals of this company resigned during the reporting period. This triggered a clause in the Loan Note agreement that allowed us to take closer control of the process of managing the portfolio. In reality, this means that any investment decision needs to be agreed by shareholders and gives us flexibility in guiding assets therein. The remaining principal remains committed to the successful run-off of the portfolio and have recruited suitable colleagues as replacements. As the portfolio runs off, we will receive cash earlier than the original maturity of the Loan Note, allowing for accelerated reinvestment into traditionally underwritten direct loans. In September, this platform has made the Company aware of a post Balance Sheet event that whereby a loan recipient is to be sold at a discount to the price originally expected due to a series of potential acquirers falling away. This has resulted in an impairment provision. If the sale does not take place, then the business concerned will be placed under administration. We believe this would result in a lengthy and uncertain recovery, as there is a large creditor book skewed to 85% with one counterparty and difficult to liquidate assets. The assessment made is that a sale at a lower rate is the safest option for return of capital and we have reflected this scenario of a $5m sale in our assessment of the potential for impairment, informed by the guidance provided by the platform.

Irish Venture Debt – this company was sold to Beach Point Capital, "BPC", a US Private Equity company. We made a decision to follow the manager and reinvest under this new entity. Although we have limited bandwidth to invest in the segment in which BPC specialises, we have a high degree of confidence in their capability to deliver risk managed returns of 10-14%. This investment is now categorised as a direct investment and will not exceed more than 10% of the portfolio.

Small Company Bond Platform – this was a UK based debt platform for very small businesses requiring circa £1 million loans. In October 2018, we noted an alert from the Companies House service that all the original directors had resigned. In December, we received a no-reply notification via email that administration of our investment had transferred to a third party. We have since discovered that the company has now re-emerged as a crypto-currency brokerage. Prior to these events, we had assessed this relationship to be of the highest risk to the portfolio and had engaged in a direct dialogue with all three counterparties with whom we had outstanding loans. This action proved to be prescient and has ensured that we have been able to negotiate refinance of two of the three loans which will roll-off our loan book in Q3, 2019. The final loan is due to mature in 2020 and we are in dialogue with the parent company to facilitate early repayment in Q4, 2019. We have also had good interactions with the new administration agent and have been receiving interest and capital payments without concern. The final loan exposure to this platform is a bankruptcy case and had already been impaired within our own exposure reports and have regular reports on progress from the liquidation agents. This case involves a suspected fraud, is making slow progress but there is a possibility of receiving some assets under proceeds of crime procedures and we will remain persistent in our endeavour to recoup as much capital as possible for Shareholders.

So, despite disappointment at the provision for transitional arrangements, we are pleased to report that further to our careful actions, loan capital has been secured for our Shareholders.

We classify this segment of the portfolio as less of a risk than peer to peer given the close interaction with the managers and the quality of the companies underwritten. However, as demonstrated, they are still exposed to unorthodox management standards and changes in focus of parent companies and personnel change which requires us to be vigilant.

Peer to Peer

Throughout SQN's tenure as manager of this portfolio, we have consistently warned of the risks associated with peer to peer lending and have endeavoured to diminish risk associated with this asset class for our Shareholders. As a reminder, it is our view that weak underwriting standards, volume driven lending decisions and the second derivative aspects of control makes this sector of the market too volatile for a vehicle associated with senior, secured lending. To this end, it is our intention to reduce risk exposure to this asset class as quickly as practicable. We assess the probability of repayment on a continuous basis, making impairment adjustments as appropriate. We have continued to mitigate these risks during the reporting period by reducing overall exposure and keeping close relationships with the platform providers.

Having inherited six lending platforms with these characteristics from the previous manager, our strategy has been to divest as rapidly as possible. Since assuming management of the Fund, we have removed three of these investments from the portfolio by selling the exposure or encouraging early repayment. However, as these positions continue to mature, corporate change has occurred which means they remain a time-consuming challenge. Three such investments remain within the portfolio and we have given commentary on our assessment of these platforms as follows:

UK Peer to Peer lender – the owner changed the name of the company and merged it with other property-based lending businesses held under their corporate structure. The parent company has stated their intention to withdraw from this segment of the market and is managing a run-off portfolio. We monitor carefully and intervene when we consider them to be too lenient with borrowers. It would be far too easy for an intermediary to write-down debt, allowing borrowers to walk away from their liabilities, leaving not only us but a minority of retail investors with losses. Therefore, we apply maximum pressure to construct manageable repayment plans and, in some cases, liens on property or other assets, allowing for additional recoup of value for our Shareholders.

INVESTMENT MANAGER'S REPORT (CONTINUED)

US Peer to Peer lender – this remains our largest peer to peer investment and although the relationship remains genial, this position is junior and represents a risk of write-down. In March 2019, we met with the owner/ founder and agreed an incentive plan for them to work harder on collections and agreed a quarter year for improvement. They informed us that they had written down 100% of this portfolio in their accounts and we found it perplexing given previous reporting, although not surprising given that they were in negotiations to sell their business and that this portfolio was their first with senior debt held by an aggressive hedge fund financier. A sale would leave the business in a stronger position financially and give added comfort for the addition promissory note held against the parent company, so we did not want to thwart this process by sapping resources.

We also advised that if no improvement was forthcoming, we would take over collections and explained that we have a good track record, together with our partners, in achieving better returns. Our work-out rate for transactions can be demonstrated by our performance in our asset finance strategy and direct loan strategy over the last twenty years.

In June, having observed slow progress, we began a series of meetings to agree interaction mooted in the previous quarter. Two executives from SQN visited New York in July and August to agree a process for the way forward and to have an update on the sale of the business. At the time, they were in the middle of a two stage Due Diligence conducted by the potential buyer and KPMG. Due to the resource drag for this work, they requested until the end of August to commence sending files to us.

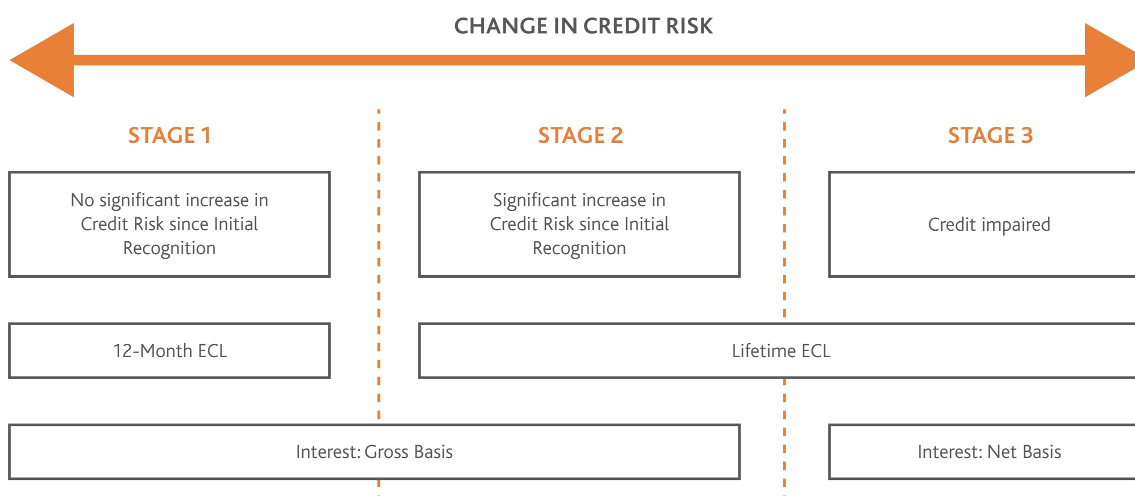
At the time of writing, we are waiting for the platform to transfer all borrower files to us. Thereafter, we will begin the process of making our own assessment of the probability of recovery and engage with attorneys and collection agencies. Again, this represents a significant resource commitment for SQN and we will remain uncompromising in our pursuit of this endeavour even as it is just a small portion of the overall portfolio. We also intend to engage a debt collector who has an aggressive reputation for collections. Given the time that has passed and speed at which information is received, we have decided to impair this platform exposure by 25%. This is a pre-emptive move and takes into account our own assessment of individual loans that are now being managed out by attorneys.

Spanish Peer to Peer lender – this company has now obtained government support for their lending strategy and are able to offer loans at lower rates than our criteria, so this tranche is in run-off. We have already reflected a significant write-down of these assets in the NAV, so this exposure is now de minimus at 0.7%. However, we have two Spanish speaking colleagues who engage on a bi-weekly basis with them and have quiet confidence that we will be able to recover some of these write-downs to the benefit of the Company.

Throughout the process of restructuring this Fund, the peer to peer exposure has been the biggest test and the greatest draw on resource when compared to the expected return.

IFRS 9

Since July 2018, the Company has adopted IFRS 9 methodology to provide information regarding forward expectations of impairment. This was a change in the accounting policy whereby loans previously had an impairment assigned to them reflecting current information only. We consider it appropriate to provide Shareholders with a description of our approach to the new standards in this regard. We use a three stage risk assessment as follows:



INVESTMENT MANAGER'S REPORT (CONTINUED)

In July 2018, the Company chose to distinguish between SQN's direct loans and legacy platform loans, making a higher average portfolio provision for legacy positions. The rates of impairment were as follows:

	Probability of Default (Platforms)
Stage 1	2%
Stage 2	15%
Stage 3	25%

One year on, we have revisited this approach and have revised the range of provisioning allocated to legacy loans as follows and have now taken account of explicit individual risks to loans:

	Probability of Default (Platforms)
Stage 1	2%
Stage 2	15%-100%
Stage 3	25%-100%

With these explicit individual risks to loans now applied, this has meant an increase in the IFRS 9 provisioning to 2.22% by the financial year end of June 2019. As described above, the increase in this provision is attributable to the UK and US peer to peer lenders representing 0.71% and 1.1% respectively.

The reasons for this change are as follows:

- There have been some significant changes in ownership and focus of the businesses in the legacy portfolio that has increased risk to the capital deployed.
- The platforms are no longer underwriting new business and are treating these loans as legacy portfolio positions themselves. This has resulted in their diminished attention to the task of collections resulting in a slower recoup of loan capital.
- One of the platforms was in sale negotiations and was at an advanced stage in Due Diligence that would have meant a stabilisation of the outlook for the assets. This corporate action has now been placed on hold.
- As the legacy portfolio becomes a smaller percentage of the total portfolio, the impaired loans will represent a greater proportion in percentage terms of the remainder. Over the year, the total sum invested in platform loans has reduced from 53.6% to 29.7%.

IFRS 9 doesn't prescribe a specific measuring method for expected credit loss ("ECL") – it acknowledges the varying nature of financial instruments and available information. However, as a minimum, any measurement of ECL under IFRS 9 must reflect:

- An unbiased evaluation of a range of possible outcomes and their probabilities of occurrence;
- Discounting for the time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

While the presence of collateral is not a key element in the assessment of whether there has been a significant increase in credit risk, it is of great importance in the measurement of ECL. IFRS 9 states that estimates of cash shortfalls reflect the cash flows expected from collateral and other credit enhancements that are integral to the contractual terms. Due to the business nature of SQN, this is a key component of its ECL measurement and interpretation of IFRS 9, as any investment would include elements of (if not all): a fully collateralised position, fixed and floating charges, a corporate guarantee, a personal guarantee, coverage ratios between 130% to 150%, and an average LTV of 85%.

An IFRS 9 provision needs to be applied to all investments, regardless of our level of comfort regarding repayment. Therefore, we have applied a 2% minimum impairment provision for all Stage 1 loans across the portfolio.

Should an investment move to Stage 2, then it will be assessed individually until it moves back to Stage 1. The use of collectives, and individual assessments from Stage 2, will enable correlations to be isolated at a micro level without detriment to the wider portfolio, providing a framework that incorporates growth and diversification.

IFRS 9 confirms that a Probability of Default ("PD") must never be zero as everything is deemed to have a risk of default; this has been incorporated by SQN. All PDs will be assessed against historic data as well as the prevailing economic conditions at the reporting date, adjusted to account for estimates of future economic conditions that are likely to impact the risk of default. 12-month PD will be applied across the collective as a cumulative in Stage 1, currently set at 2% in line with investment data held by SQN, market knowledge, and credit enhancements (this is equivalent to there being 1 default for an average portfolio of 50 unique borrowers. Once an investment moves to Stage 2 then PD will be calculated on an individual basis (and adjusted for Stage 3 if appropriate). All assessment is based on reasonable and supportive information available at the time.

INVESTMENT MANAGER'S REPORT (CONTINUED)

Lifetime ECL will be applied across the collective as a cumulative in Stage 1, split according to the investment's classification. For direct loan investments this is calculated as 2% of the individual investment's Contracted Cash Flows ("CCF"), and 2% of the investment's CCF for platform investments. These Stage 1 Lifetime ECL amounts are taken to be the investments' floor amounts- the Lifetime ECL for any investment can never be less than its floor amount. Once an investment moves to Stage 2 then Lifetime ECL will be calculated on an individual basis. Lifetime ECL will be reviewed at each reporting date based on reasonable and supportive information available at the time.

Should the expected cashflows (when all credit enhancements are incorporated) be greater than the CCF (irrespective of the stage it is assigned to), then Lifetime ECL will be recorded as the floor value calculated above. Given the business model of SQN, it is expected that individual loss allowances (PD multiplied by Lifetime ECL) will be minimal for a large proportion of the direct loan portfolio as every investment is structured with multiple credit enhancements at origination. This ensures there will be minimal impact to the Company from IFRS 9 going forward given its collateralised business model, irrespective of any increase in credit risk. It is noted that a situation could arise where the collateral base falls to a material level below the CCF and should such a situation arise then SQN would adjust the ECL accordingly.

The increase in credit risk, and movement between Stage 1 to Stage 2, is one of judgement and subjectivity. The Company does not employ the generic presumptions recommended under IFRS 9 (30-day significant increase in credit risk and the 90-day default) given the idiosyncratic nature of its investments and credit enhancements built in at origination. Accelerating the recognition of default would decrease asset value (and ultimate recovery), over-value losses, and have no precedent given historic information and the nature of long-term asset investments. Default is driven by collateral, guarantees and LTV, not by days passed, with an emphasis on the deterioration of the individual collateralised position. Therefore, any investment that moves from Stage 1 is assessed on an individual basis.

So, despite reducing the overall exposure in platforms to 29.7% of the overall portfolio, we consider it prudent to reflect these changes in conditions as they now present themselves and have adopted a methodology that reflects these specific circumstances.

Even with these impairment provisions, dividend cover remains consistent and we have confidence that an 8% total return on the portfolio in the medium term is achievable.

Investment Outlook

After a troubled start, SQN assumed management of the Company in April 2017. Since then, the Company has stabilised and is now delivering steady dividend cover and the net asset value has reflected the careful management of direct loans and legacy third party investments.

As we consider risks, as demonstrated in our candid assessment above, SQN has carefully managed the relationships with legacy counterparties but as this part of the portfolio matures, it is unsurprising that the remainder will represent a significant challenge.

Without further Shareholder capital and without an adjustment to the investment mandate, whilst we will be able to maintain dividend cover it will be a challenge to make further improvements in NAV, nor will we be able to control potential impact of impairments from legacy investments having an affect. We have always advised that the best way to manage these risks is to grow the assets to diminish this impact. If the Company were to be placed into wind down, we would be able to liquidate assets at a reasonable pace, given the now shorter, though still extended, duration profile, allowing us to return capital efficiently. During this time, investors will continue to receive their income return on a monthly basis.

However, it would be very disappointing for this to be the outcome for a fund that we have considerable pride in restructuring and returning to its original goal of income generation. A more constructive approach would be to allow the Company to continue and to make use of as yet, unutilised gearing capacity to invest in our underwritten loans. This would allow the Company to generate an enhanced dividend of approximately 9.45p for every pound Sterling invested, and reduce the gross impact of the peer to peer exposure to 3.70%. Even with peer to peer impairments, this would allow for a net yield of approximately 10.6%. We look forward to a dialogue with our Shareholders over the coming months to agree a satisfactory way forward.

We consider that the Company has reached a pivotal point in its history, we would be very happy to continue to provide income for our Shareholders and we have been humbled by the support and encouragement given to us by our clients and I would like to thank them personally for their patronage. However, we are realistic that a Company with a small capital base tends to trade at a discount and so makes it difficult to raise new capital. We have made proposals to the Board and are committed to delivering a satisfactory outcome for Shareholders who seek regular, higher income from a stable, alternative investment base. If the Company is wound up, we will honour that decision and return proceeds to our Shareholders in as expeditious fashion as circumstances will allow.

DAWN KENDALL
Portfolio Manager
SQN Asset Management Limited
15 October 2019

COMPANY ANALYTICS

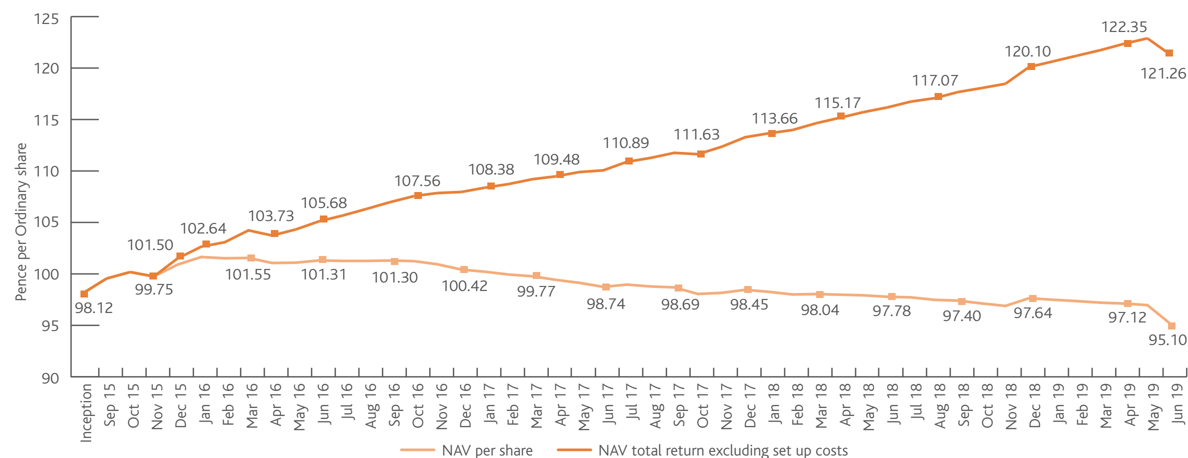
as at 30 June 2019

PERFORMANCE AND DIVIDEND HISTORY

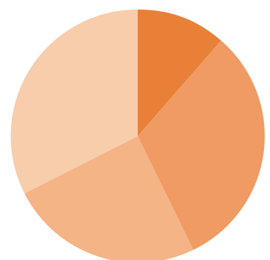
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total from 2017
NAV total return	2017	0.38%	0.33%	0.43%	0.26%	0.38%	0.14%	0.76%	0.34%	0.44%	-0.12%	0.64%	0.83%	
	2018	0.34%	0.27%	0.58%	0.47%	0.48%	0.39%	0.48%	0.28%	0.52%	0.33%	0.34%	1.38%	**11.67%**
	2019	0.44%	0.46%	0.44%	0.51%	0.44%	-1.32%							
Dividend per share	2017	0.600p	0.600p	0.600p	0.600p	0.676p	0.525p	0.525p	0.525p	0.525p	0.525p	0.525p	0.525p	
	2018	0.525p	0.525p	0.525p	0.525p	0.525p	0.525p	0.525p	0.525p	0.583p	0.583p	0.583p	0.583p	**16.78p**
	2019	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p							
Share price performance*	2017	-0.27%	-2.41%	6.32%	1.55%	-0.51%	0.00%	-0.51%	0.00%	-0.77%	-0.78%	-0.26%	-1.96%	
	2018	-1.20%	0.00%	-1.62%	2.47%	-1.88%	0.00%	-0.82%	-1.10%	0.28%	1.11%	1.37%	0.00%	**-1.26%**
	2019	-0.27%	0.00%	-0.27%	-0.27%	0.55%	0.00%							

*Source Bloomberg

NAV/NAV TOTAL RETURN

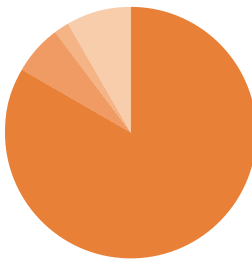


PORTFOLIO EXPOSURE BY MATURITY



- 0 to 6 months, 11.6%
- 6 months to 18 months, 31.2%
- 18 months to 3 years, 24.8%
- >3 years, 32.4%

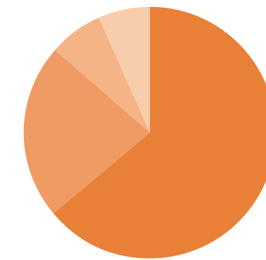
PORTFOLIO EXPOSURE BY GEOGRAPHY



- UK, 83.6%
- US, 6.3%
- Offshore Britain, 1.9%
- Europe, 8.2%

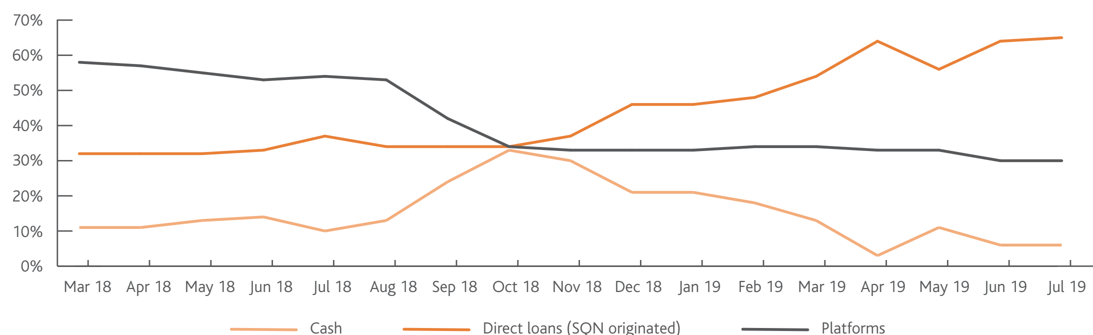
*Offshore Britain: Channel Islands, Gibraltar & Isle of Man

PORTFOLIO EXPOSURE BY TYPE



- Direct loans (SQN originated), 63.9%
- Co-invested and solely owned private debt, 22.6%
- Peer to peer/crowdfunded, 7.1%
- Cash including commited cash, 6.4%

CURRENT AND PROJECTED PORTFOLIO EXPOSURE BY TYPE



All data source:
SQN Asset Management Limited

PRINCIPAL RISKS

Risk is inherent in the Company's activities, but it is managed through an ongoing process of identifying and assessing risks and ensuring that appropriate controls are in place. The key risks faced by the Company, along with controls employed to mitigate those risks, are set out below.

Macroeconomic risk

Adverse macroeconomic conditions may have a material adverse effect on the Company's yield on investments, default rate and cash flows. The Board and the Investment Manager keep abreast of market trends and information to try to prepare for any adverse impact.

The Company's assets are diversified by geography, asset class, and duration, thereby reducing the impact that macroeconomic risk may have on the overall portfolio.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows and/or fair values of the Company's investments. Exposure to interest rate risk is limited by the use of fixed rate interest on the majority of the Company's loans, thereby giving security over future loan interest cash flows.

Currency risk is the risk that changes in foreign exchange rates will impact future profits and net assets. Currency risk is mitigated to a certain extent through the use of forward foreign exchange contracts to hedge movements in foreign currency exchange rates.

Credit risk

The Company invests in a range of secured loan assets mainly through wholesale secured lending opportunities, secured trade and receivable finance and other collateralised lending opportunities. The Company is also exposed to direct loans. Significant due diligence is undertaken on the borrowers of these loans and security taken to cover the loans and to mitigate the credit risk on such loans.

The key factor in underwriting secured loans is the predictability of cash flows to allow the borrower to perform as per the terms of the contract.

The Company has investment restrictions in place. Therefore, as mentioned above, the Company's assets are diversified by geography, asset class, and duration, thereby reducing the impact that investment risk may have on the overall portfolio.

The credit risk associated with the investments is reduced not only by diversification but also by the use of security. Despite the use of security, credit risk is not reduced entirely and so the Investment Manager monitors the recoverability of the loans (on an individual loan basis) each month and impairs loans in accordance with IFRS 9 Financial Instruments.

Platform risk

The Company is dependent on platforms, albeit to a lesser extent for that reducing part of the loan portfolio originated through platforms than was the case prior to the change of Investment Manager in April 2017, to operate the loan portfolio (to bring new loans to the Company's attention; to effectively monitor those loans; and to pay and receive monies as necessary). If a platform were no longer able to operate effectively this could put at risk loans made with/through such a platform and increase credit risk.

The Investment Manager undertakes due diligence on all the platforms and part of this work is to confirm that the platforms have disaster recovery policies in place whereby a third party administrator would step in to manage the loans in the event the platform could no longer do so. If such an event were to occur, the Company's approach would vary depending on the platform and the circumstances, and would be determined by the Board after discussion with the Investment Manager and other advisers.

The Company's exposure to platform risk is decreasing as it realises platform loans and exits positions on certain platforms entirely.

Regulatory risk

The Company's operations are subject to wide ranging regulations, which continue to evolve and change. Failure to comply with these regulations could result in losses and damage to the Company's reputation.

The Company employs third party service providers to ensure that regulations are complied with.

PRINCIPAL RISKS (CONTINUED)

Reputational risk

The Company has been incorporated with an unlimited life. However, in the event that the Ordinary Shares have been trading at a discount to NAV of greater than 10% for three consecutive months (calculated on a rolling three monthly average of daily numbers), the Company shall convene a general meeting to propose a continuation resolution. If such a continuation resolution is not passed, the Board will draw up proposals for the winding-up or reconstruction of the Company for submission to Shareholders. Any adverse impact on the Company's reputation would likely result in a fall in its share price, thereby increasing the possibility of a continuation vote being proposed.

The Company's Articles of Association require the Directors to convene a general meeting to propose to Shareholders a NAV Continuation Resolution if the Company does not have a NAV of at least £250 million as at 31 December 2019. Any adverse impact on the Company's reputation would increase the possibility of a NAV Continuation Resolution not being passed. Although it appears unlikely that the Company's NAV will be greater than £250 million as at 31 December 2019, the outcome of a NAV Continuation Resolution (if required) is not known. Given that Shareholders have generally been supportive of the Company's plans to date, the Directors do not consider that this adversely affects the Company's going concern at this stage. Should the NAV Continuation Resolution not be passed, the financial statements will have to be prepared on a break-up basis. Directors do not consider the impact of this to be material.

Details of the premium/discount of the share price to NAV are disclosed on page 17.

ENVIRONMENT, EMPLOYEE, SOCIAL AND COMMUNITY ISSUES

As an investment company, the Company does not have any employees or physical property, and most of its activities are performed by other organisations. Therefore, the Company does not combust fuel and does not have any 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.

When making investment decisions, the Investment Manager does not consider the impact that an entity in which the Company invests may have on the community. However, the Board believes that all companies have a duty to consider their impact on the community and the environment but the Company does not have a direct impact on the community or environment and, as a result, does not maintain policies in relation to these matters.

GENDER DIVERSITY

The Board of Directors of the Company currently comprises two male Directors and one female Director. Further information in relation to the Board's policy on diversity can be found in the Directors' Remuneration Report on page 31.

KEY PERFORMANCE INDICATORS

The Board uses the following key performance indicators ("KPIs") to help to assess the Company's performance against its objectives. Further information on the Company's performance is provided in the Chairman's Statement and the Investment Manager's Report.

Dividend yield

The Company distributes at least 85% of its distributable income by way of dividends on a monthly basis. During any year the Company may retain some of the distributable income and use these to smooth future dividend flows. The Company's annual dividend target for the period under review was 7.00p per Share.

The Company has announced dividends of £3,684,000 (7.00p per Ordinary Share) for the year ended 30 June 2019, being 128.9% of distributable profit for the year (see notes 5 and 22 for further details). To ensure the tax efficient streaming of qualifying interest income, the Company may announce an additional dividend out of the profits for the year ended 2019, once the tax advisers have finalised the tax computations.

NAV and total return

The Directors regard the Company's NAV as a key component to delivering value to Shareholders, but believe that total return (which includes dividends) is the best measure for shareholder value.

Details of the NAV and total return are disclosed on pages 3 and 55.

Premium/discount of share price to NAV

The Board regularly monitors the premium/discount of the price of the Ordinary Shares to the NAV per share. As mentioned in Principal Risks above, in the event that the Ordinary Shares have been trading at a daily discount to NAV of greater than 10% for three consecutive months (calculated on a rolling three monthly average of daily numbers), the Board will convene a general meeting to propose a continuation resolution. If such a continuation resolution is not passed, the Board will draw up proposals for the winding-up or reconstruction of the Company for submission to Shareholders. The adoption of the new Articles of Association in the year include, amongst other things, a provision for the continuation resolution (by way of an ordinary resolution) if the Company's net assets at 31 December 2019 are less than £250 million.

At 30 June 2019 the shares were trading at 92.00p, a 3.26% discount to NAV. However, the three month average share price was a 3.76% discount to NAV.

KEN HILLEN
Chairman
15 October 2019

BOARD OF DIRECTORS

Ken Hillen *(Non-executive Chairman)*

Ken has held a number of senior banking roles throughout his career; including senior corporate director at RBS, managing director for Scotland and Northern Ireland at Anglo Irish Bank and, until 2009, head of commercial and corporate banking for Scotland at Bank of Ireland. Ken has a broad experience of non-executive and consultancy roles within financial services and other sectors, including director and chairman of a financial services business which specialises in the provision of bridging loans.

David Stevenson *(Non-executive)*

David is a financial journalist and commentator for a number of leading publications including The Financial Times (the Adventurous Investor), Investment Week (The Contrarian), Money Week and the Investors Chronicle. He is also executive director of the world's leading alternative finance news and events services www.altfi.com, which focuses on covering major trends in marketplace lending, crowd funding and working capital provision for small to medium sized enterprises. David is also the author of a number of books on investment including the bestselling book on ETFs and their use within portfolios in Europe for the Financial Times. Before founding www.altfi.com, David was a director at successful corporate communications business The Rocket Science Group and before that a senior producer in business and science in BBC TV.

Gaynor Coley *(Non-executive)*

Gaynor is a Director and Chair of the Audit Committee of Lowland Investment Company plc, a director of Edinburgh Dragon Trust (from 3 July 2019) and director of a number of private companies. She is a director and chairs the board of The Wave Group Limited, a private company, based in Bristol building inland surfing venues. She was previously the Director of Public Programmes at the Royal Botanic Gardens Kew following on from 15 years as the Managing Director of the award winning Eden Project in Cornwall, and five years as the Director of Finance at Plymouth University. A qualified chartered accountant, she has over 30 years of experience in private and public sector finance and governance.

DIRECTORS' REPORT

The Directors of the Company are pleased to present their report and audited Financial Statements for the year ended 30 June 2019.

The Company is an investment company as defined in s833 of the Companies Act 2006.

Principal activity

The principal activity of the Company is to provide Shareholders with attractive risk adjusted returns, principally in the form of regular, sustainable dividends, through investment predominantly in a range of secured loans and other secured loan-based instruments originated through a variety of channels and diversified by way of asset class, geography and duration.

Results and Dividends

The results of the Company for the year are shown on page 36.

Further details, including details of future developments, are provided in the Chairman's Statement and Investment Manager's Report.

The Company distributes at least 85% of its distributable income by way of dividends on a monthly basis. During any year, the Company may retain some of the distributable income in a subsequent month to that in which it arises in order to smooth dividend amounts or for the purposes of efficient cash management.

The Company elected to designate all of the dividends for the year ended 30 June 2019 as interest distributions to its Shareholders. In doing so, the Company took advantage of UK tax treatment by "streaming" income from interest-bearing investments into dividends that will be taxed in the hands of Shareholders as interest income.

The Company has announced dividends of 7.00p per Ordinary Share out of the profits for the year ended 30 June 2019, of which 5.83p per Ordinary Share were provided for in these financial statements. In accordance with IFRS, dividends are only provided for when they become a contractual liability of the Company. Therefore, during the year a total of £3,623,000 was incurred in respect of dividends, none of which was outstanding at the reporting date, but the dividends of £307,010 each, declared on 25 June 2019 and 25 July 2019, had not been provided for at 30 June 2019 as, in accordance with IFRS, they were not deemed to be liabilities of the Company at that date.

The Directors do not recommend the payment of a final dividend for the financial year.

Net Assets

At 30 June 2019, the Company had net assets of £50,129,000 (2018: £51,539,000).

Going Concern and Viability Statement

After undertaking prudent and robust enquiries, and assessing all data relating to the Company's liquidity, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and do not consider there to be any threat to the going concern status of the Company. For this reason, they have adopted the going concern basis in preparing the Financial Statements.

The Company's Articles of Association require the Directors to convene a general meeting to propose to Shareholders a NAV Continuation Resolution if the Company does not have a NAV of at least £250 million as at 31 December 2019. Although it appears unlikely that the Company's NAV will be greater than £250 million as at 31 December 2019, the outcome of a NAV Continuation Resolution (if required) is not known. Given that Shareholders have generally been supportive of the Company's plans to date, the Directors do not consider that this adversely affects the Company's going concern at this stage. Should the NAV Continuation Resolution not be passed, the financial statements will have to be prepared on a break-up basis. Directors do not consider the impact of this to be material.

The Directors have assessed the prospects of the Company over the three year period to 30 September 2022. The Directors believe this period to be appropriate as any forecast beyond three years would likely produce figures that were too uncertain to be meaningful.

In their assessment of the viability of the Company, the Directors have considered the Company's principal risks and uncertainties together with the Company's income and expenditure projections, and sensitivity analyses were run to model the financial impact of changes in plausible impairment rates. The Directors also noted the relatively liquid nature of the Company's portfolio which could be utilised to meet funding requirements, if necessary.

The Company has processes for monitoring operating costs, share price discount, the Investment Manager's compliance with the investment objective and policy, asset allocation, the portfolio risk profile, counterparty exposure, liquidity risk, foreign exchange risk and financial controls.

Based on the above evaluation, the Directors concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period to 30 September 2022.

The above evaluation was performed independently of any potential continuation resolution, as discussed above.

DIRECTORS' REPORT (CONTINUED)

Litigation

So far as the Directors are aware, no litigation or claim of material importance is pending or threatened against the Company.

Internal Control and Financial Reporting

The Board is responsible for establishing and maintaining the Company's system of internal control. Internal control systems are designed to meet the particular needs of the Company and the risks to which it is exposed. Accordingly, the internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and, by their nature, can only provide reasonable and not absolute assurance against misstatement and loss.

The key procedures which have been established to provide effective internal controls are as follows:

- The Administrator is responsible for the provision of administration and company secretarial duties;
- The duties of investment management and accounting are segregated. The procedures are designed to complement one another;
- The Directors of the Company clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts; and
- The Board reviews financial information produced by the Company's Investment Manager and the Administrator on a regular basis.

The Company does not have an internal audit department. All of the Company's management functions are delegated to third parties and it is therefore felt that there is no need for the Company to have an internal audit function.

The Board has considered the FRC guidance on risk management, internal control and related financial and business reporting dated September 2014 that applies from 1 October 2014. The Board is responsible for ensuring the maintenance of a robust system of internal control and risk management and for reviewing the effectiveness of the Company's overall internal control arrangements and processes following recommendations from the Audit and Valuation Committee.

The appointment of SQN Capital Management, LLC ("SQN US") as the Alternative Investment Fund Manager ("AIFM") under the Alternative Investment Fund Managers Directive means that it is responsible for operating the Company's internal system of control and for initially reviewing its effectiveness. Such systems are however designed to minimise the risk and not entirely eliminate risk; they can provide only reasonable and not absolute assurance against material misstatement or loss.

Financial Risk Profile

The Company's financial instruments comprise loans, bonds with loan type characteristics, investments at fair value through profit or loss, cash and cash equivalents, other receivables, derivative financial instruments and other payables that arise directly from the Company's operations.

The main risks are market risk (comprising price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk. Further details are given in note 24 to the financial statements. The principal risks faced by the Company are outlined on pages 15 and 16.

Material Contracts

The Company's material contracts are with:

- SQN Asset Management Limited, which acts as joint Investment Manager;
- SQN Capital Management, LLC, which acts as joint Investment Manager and AIFM;
- FinnCap Limited, which acts as Broker;
- Kepler Partners LLP, which acts as Retail Broker;
- Elysium Fund Management Limited, which acts as Administrator and Company Secretary;
- Royal Bank of Scotland International Limited, which acts as Banker; and
- Link Asset Services, which acts as Registrar.

Taxation

The Company is exempt from UK corporation tax on its chargeable gains as it satisfies the conditions for approval as an investment trust. The Company is, however, liable to UK corporation tax on its income. However, the Company has elected to take advantage of modified UK tax treatment in respect of its "qualifying interest income" in order to deduct all, or part, of the amount it distributes to Shareholders as dividends as an "interest distribution".

DIRECTORS' REPORT (CONTINUED)

Capital structure and share issues

The Company has 52,660,350 Ordinary Shares (of 1 pence each) in issue, together with 50,000 Management Shares (of £1 each). The Company does not currently have any borrowings.

Substantial shareholdings

As at 30 June 2019, the Company was aware of the following Shareholders holding 3% or more in the Company's voting rights:

Shareholder	*Number of Ordinary Shares*	*Percentage holding*
Somerston Group	14,725,000	27.96
Albion Resources	3,758,000	7.14
WM Thomson & Sons	3,412,000	6.48
SQN Asset Management	3,300,000	6.27
CQS Management	3,208,000	6.09
CG Asset Management	2,735,304	5.19
AXA Investment Managers	2,500,000	4.75
Pictet Asset Management	2,500,000	4.75
Philip J Milton & Company	2,207,878	4.19
Staude Capital	2,206,000	4.19
Jupiter Asset Management	2,140,000	4.06
Canaccord Genuity Wealth Management	1,622,905	3.08

Since 30 June 2019, CG Asset Management's holding was reduced to 2,622,350 (4.98%) on 19 July 2019 and Philip J Milton & Company's holding was increased to 2,263,218 (4.30%) on 9 September 2019.

There have been no other changes to the above holdings between 30 June 2019 and the date of this report.

Letters of appointment and election of Directors

Biographies of the Directors are set out on page 18 and demonstrate the wide range of skills and experience each brings to the Board. The Directors were identified and interviewed prior to their appointments and advice was taken in respect of their appointment from the Company's other relevant advisers.

During the year and to date, the following served as Directors of the Company:

Ken Hillen *(Chairman)*
David Stevenson
Gaynor Coley
Richard Hills *(resigned 18 December 2018)*

Each Director signed a letter of appointment to formalise the terms of their engagement as a Director. The terms of those letters of appointment specify that independent non-executive Directors are typically expected to serve an initial three year term, subject to retirement by rotation in accordance with the Company's Articles of Association. Continuation beyond the initial three year term will be subject to re-election by the Shareholders. Copies of the letters of appointment are available on request from the Company Secretary and will be available at the Annual General Meeting ("AGM").

Directors' interests

At 30 June 2019, the Directors' interests in the shares of the Company were as follows:

	Ordinary shares
David Stevenson	20,256
Ken Hillen	5,000
Gaynor Coley	2,000

During the year, no Director had a material interest in a contract to which the Company was a party (other than their own letter of appointment), requiring disclosure under the Companies Act 2006.

There were no changes in the interests of Directors between 30 June 2019 and the date of this report.

DIRECTORS' REPORT (CONTINUED)

Political donations

The Company made no political donations during the year to organisations either within or outside of the EU (2018: nil).

Corporate Governance

The Corporate Governance Report can be found on pages 24 to 26.

Auditor

RSM UK Audit LLP has been re-appointed as the Company's auditor and has expressed its willingness to continue in office.

Disclosure of Information to Auditor

The Directors who held office at the date of approval of this Report of the Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all steps that they ought to have taken as a Director to establish that the Company's auditor is aware of that information.

On behalf of the Board

KEN HILLEN
Chairman
15 October 2019

GAYNOR COLEY
Director
15 October 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' Report, Strategic Report, Directors' Remuneration Report and the Financial Statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare Financial Statements for each financial period. The Directors have prepared Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The Financial Statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Company and of the financial performance of the Company. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS adopted by the EU; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Financial Statements, Article 4 of the IAS Regulation. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed in the Directors' Report confirm that, to the best of each person's knowledge:

- the Financial Statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company taken as a whole together with a description of the principal risks and uncertainties that they face.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on SQN Secured Income Fund plc's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KEN HILLEN
Chairman
15 October 2019

GAYNOR COLEY
Director
15 October 2019

CORPORATE GOVERNANCE REPORT

Companies admitted to trading on the Specialist Fund Segment of the London Stock Exchange's main market are not required to comply with the UK Corporate Governance Code 2016 (the "Code"). The Company is committed to high standards of corporate governance and has sought to comply with those aspects of the Code that are considered by the Board to be practical and appropriate for an organisation of its size and nature and where, in the Board's opinion, are of material benefit to the Company and/or its stakeholders. The Disclosure and Transparency Rules require the Company to, amongst other things: (i) make a corporate governance statement in its annual report and accounts based on the code to which it is subject, or with which it voluntarily complies; and (ii) describe its internal control and risk management arrangements.

In applying the main principles set out in the Code, the Directors have considered the principles and recommendations of the 2016 AIC Code of Corporate Governance (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide") (which is available at www.theaic.co.uk). The AIC Code, as explained in the AIC Guide, addresses all the principles set out in the Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company as an investment company. The Board considers that reporting against the principles and recommendations of the AIC Code, which incorporates the main principles of the Code, and by reference to the AIC Guide provides better information to Shareholders.

The Directors recognise the value of the AIC Code and have taken appropriate measures to ensure that during the year, the Company has complied and continues to comply, as far as possible given the Company's size and nature of business, with the AIC Code, except as set out below:

Portfolio – The Company does not provide a complete portfolio listing, as the Board has determined that to provide a complete listing would not be of use to users of the Annual Report and Financial Statements. Instead, exposure to platforms and information by duration, sector and geography is provided on page 14.

Internal audit function – Due to the current size and nature of the Company's operations, no internal audit function is considered necessary. Details of the Company's principal outsourced service providers are detailed in note 7.

Chairman – The Chairman of the Company is a member of the Audit and Valuation Committee and the Remuneration and Nominations Committee, and chairs the Management Engagement Committee. This is considered appropriate due to: the lack of perceived conflict; the small size of the Board; and because the Directors believe that he continues to be independent.

The Board and its committees

The Board has delegated certain responsibilities to its Audit and Valuation, Management Engagement, and Remuneration and Nominations Committees. Given the size and nature of the Board it was felt appropriate that all independent Directors are members of the committees.

The roles and responsibilities of the committees are set out in the appropriate terms of reference and are summarised below.

Items are discussed and, as appropriate, matters are endorsed, approved or recommended to the Board by the committees. The chairman of each committee provides the Board with a summary of the main discussion points at the committee meeting, and any decisions made by the committee along with any recommendations which require Board approval.

The Board may also delegate certain functions to other parties; in particular, the Directors may delegate to the Investment Manager. However, the Directors retain responsibility for exercising overall control and supervision of the Investment Manager. Matters reserved for the Board include, amongst others, approval and oversight of the Company's investment activities by ensuring that the Company has complied with its investment restrictions. The Board also reviews the performance of the Company against its target return (as defined in the Prospectus) and, in light of the current market condition, considers the strategy taken by the Investment Manager. Approval of the half-yearly report and financial statements, announcements, dividends and annual report and financial statements are also reserved for the Board.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Board and its committees (continued)

Audit and Valuation Committee

The Company's Audit and Valuation Committee, comprising all the independent Directors of the Company, meets at least twice a year. Gaynor Coley is the chairman of the Audit and Valuation Committee (appointed 18 December 2018). Prior to his appointment as Chairman of the Company on 18 December 2018, Ken Hillen was chairman of the Audit and Valuation Committee.

The Audit and Valuation Committee:

- Monitors the financial reporting process;
- Monitors the effectiveness of the Company's internal control and risk management systems;
- Monitors the annual statutory audit process;
- Reviews and monitors the independence of the Company's auditor in particular in relation to the auditor's provision of additional services to the Company;
- Reviews the whistleblowing procedures of the Investment Manager; and
- Is responsible for recommending valuations of the Company's investments to the Board.

Management Engagement Committee

The Company's Management Engagement Committee, comprising all the independent Directors of the Company, meets at least once a year. Ken Hillen is the chairman of the Management Engagement Committee. Prior to his resignation as a Director on 18 December 2018, Richard Hills was chairman of the Management Engagement Committee.

The Management Engagement Committee, reviews the actions and judgements of the Investment Manager and also the terms of the Investment Management Agreement. It also reviews the performance of and agreements with other service providers. The most recent evaluation found that, at a minimum, all service providers were rated satisfactory.

Remuneration and Nominations Committee

The Company's Remuneration and Nominations Committee, chaired by David Stevenson, consists of all the Directors and meets at least once annually to ensure that the Board has an appropriate balance of skills to carry out its fiduciary duties and to select and propose suitable candidates when necessary for appointment.

The Board takes diversity into account, including gender, during the appointment process. However, the Board is committed to appointing the most appropriate candidate. Therefore, no targets have been set against which to report.

The Remuneration and Nominations Committee undertakes an annual performance evaluation of the Board, its Committees, individual Directors and Chairman, to ensure that all its members have devoted sufficient time and contributed adequately to the work of the Board. The Chairman reviews with each Director their performance and the Board reviews the Chairman's performance. In the light of these evaluations, the Remuneration and Nominations Committee makes recommendations to the Board concerning the reappointment by Shareholders of any Director under the "retirement by rotation" provisions in the Company's Articles of Association. The Remuneration and Nominations Committee also reviews Directors' fees and makes recommendations to the Board as and when required in relation to remuneration policy.

Each Director submits a list of potential conflicts of interest at each Board meeting. These are considered carefully, taking into account the circumstances surrounding them and, if considered appropriate are approved by the Board.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board meeting attendance

During the year, the Company held five Board meetings, thirteen Committee meetings, three Audit and Valuation Committee meetings, one Management Engagement Committee meeting and three Remuneration and Nominations Committee meetings. Attendance at these Board and Committee meetings is detailed below:

	Number of meetings				
	Board	*Committees of the Board*	*Audit and Valuation Committee*	*Management Engagement Committee*	*Remuneration and Nominations Committee*
Ken Hillen	5/5	10/10	3/3	1/1	3/3
David Stevenson	5/5	n/a	3/3	1/1	3/3
Gaynor Coley	5/5	8/8	3/3	1/1	3/3
Richard Hills *(resigned 18 December 2018)*	2/3	n/a	1/1	1/1	1/1

Richard Hills and David Stevenson did not attend all of the meetings of committees of the Board as they were not required to. Ken Hillen and Gaynor Coley shared the responsibility of chairing the dividend approval committee meetings to coincide with their time as chair of the Audit and Valuation Committee.

Board's performance evaluation

During the year, the Board undertook a performance evaluation. As part of the evaluation, the Chairman met the individual Directors for the purpose of a formal and rigorous performance appraisal and consideration of each Director's independence. The Directors met, without advisers present, to appraise the Chairman's performance. Going forward, any training needs identified as part of the evaluation process will be added to the agenda of the next Board meeting.

Relations with Shareholders and Annual General Meeting

The Company encourages two-way communication with both its institutional and private investors and intends to respond quickly to queries raised. All Shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM, which will be held at 1:30pm on 17 December 2019. The notice of the AGM, which will be circulated to all registered Shareholders with at least twenty-one days' notice, sets out the business of the meeting and an explanation of each proposed resolution. Separate resolutions are proposed in respect of each substantive issue.

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

On behalf of the Board

KEN HILLEN
Chairman
15 October 2019

AUDIT AND VALUATION COMMITTEE REPORT

Composition

The Audit and Valuation Committee comprises all the independent Directors of the Company and is chaired by Gaynor Coley. Gaynor Coley has substantial business experience together with the necessary experience in accounting and auditing. Prior to his appointment as Chairman of the Company on 18 December 2018, Ken Hillen was chairman of the Audit and Valuation Committee.

Responsibilities

The Audit and Valuation Committee monitors the integrity of the financial statements of the Company, including its annual and half-yearly reports and any other formal announcements relating to its financial performance and review significant financial reporting issues and judgement which they contain, having regards to matters communicated by the auditor.

The Audit and Valuation Committee monitors potential changes to the Code, AIC Code and EU legislation relating to appointment of auditors, restrictions on the non-audit services provided by external auditors and the fees they receive.

The key responsibilities and principal activities of the Audit and Valuation Committee, as identified in its terms of reference and other than as mentioned above, are as follows:

- to review, and challenge where necessary, the consistency of, and any changes to, significant accounting policies on a year on year basis across the Company;
- to review and monitor the Company's financial reporting processes and consider the effectiveness of the Company's internal financial control policies and procedures;
- to review and challenge the going concern assumption;
- to review the content of the Annual Report and Financial Statements and decide on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position and performance, business model and strategy;
- to review and approve the annual audit plan with the external auditor and ensure that it is consistent with the scope of the audit engagement (after prior review by the Audit and Valuation Committee chairman), having regard to the seniority, expertise and experience of the audit team;
- to view the findings of the audit with the external auditor, including discussing the major issues that arise during the audit, the key accounting and audit judgements, the levels of errors identified during the audit and the effectiveness of the audit process;
- to review any representation letters requested by the external auditor (and/or responses from the management) before they are signed by the Board;
- to assess annually the external auditor's independence and objectivity and the effectiveness of the audit process taking into account relevant UK law, professional and regulatory requirements and the relationship with the external auditor as a whole, including the provision of any non-audit services;
- to review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems and review and approve the statements to be included in the annual report concerning internal controls and risk management;
- to monitor the integrity of the recommended valuations and any impairment of loans made by the Investment Manager and to recommend valuations/impairment of the Company's investments to the Board; and
- to arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary.

As the Company has no employees, the Company does not have whistleblowing policy and procedures in place. However, the Audit and Valuation Committee reviews the whistleblowing procedures of the Investment Manager and certain other external service providers to ensure that the concerns of its staff may be raised in a confidential manner.

Meetings

The Audit and Valuation Committee meets at least twice a year at appropriate intervals in the financial reporting and audit cycle. Further meetings will take place should the chairman of the Audit and Valuation Committee or other members require. Only the Audit and Valuation Committee members have the right to attend and vote on these meetings. However, other individuals, such as representatives of the Investment Manager, other representatives from the finance function of the Company and the external auditor may be invited to attend all or part of any meeting.

Primary areas of judgement in relation to the Annual report and financial statements

The Audit and Valuation Committee has considered the significant judgements made in the Annual report and financial statements and receives reports from the external service providers and the external auditor on those judgements. The Audit and Valuation Committee pays particular attention to the matters it considers to be important by virtue of size, potential impact, complexity and level of judgement.

AUDIT AND VALUATION COMMITTEE REPORT (CONTINUED)

Primary areas of judgement in relation to the Annual report and financial statements *(continued)*

The internal controls over financial reporting were considered, together with feedback from the Company's Investment Manager, Company Secretary and the Company's external auditor.

The Audit and Valuation Committee has considered the valuation of unquoted investments. It is satisfied that the valuations are in accordance with the Company's accounting policies and that the carrying values used in these financial statements represent an appropriate fair value.

The Audit and Valuation Committee has considered the valuation of the loans and the associated impairment. It has reviewed the assessments of impairment from the Investment Manager and platforms and is satisfied that the level of impairment of loans and associated interest in these financial statements is appropriate.

The Audit and Valuation Committee has met with the audit team and has assessed RSM UK Audit LLP's performance to date. The Audit and Valuation Committee received a report and supporting presentation from RSM UK Audit LLP on its audit of the financial statements for the year. The Audit and Valuation Committee read and discussed the Annual Report, with special attention to the considerations included above and concluded that it is fair, balanced and understandable.

Internal audit

The Audit and Valuation Committee and the Board have considered the need for an internal audit function and they have decided that the procedures employed by the Investment Manager and Administrator give sufficient assurance that a sound system of internal control is maintained. Therefore, an internal audit function is not considered to be necessary. However, in accordance with the Audit and Valuation Committee's terms of reference, the requirement will be re-visited annually.

External audit

In accordance with the requirements of the AIC Code and recent changes to the EU regulatory framework, the Company will ensure that the external audit contract is put out to tender at least every 10 years from the appointment date of the current auditor.

RSM UK Audit LLP presented the detailed audit plan to the Audit and Valuation Committee on 19 June 2019. The plan sets out the audit scope, the significant audit risks the Company faces, RSM UK Audit LLP's position on audit independence, materiality, proposed timetable and audit fee. Following the completion of the audit, the Audit and Valuation Committee will review RSM UK Audit LLP's effectiveness by:

- discussing the overall risk-based audit process and the audit procedures taken to address the identified significant audit risks;
- considering the feedback on the audit provided by the Investment Manager and the Administrator; and
- considering the experience, involvement of specialists and continuity of the audit team, including the audit partner.

The feedback provided by the Investment Manager and the Administrator regarding the audit team's performance was positive. The Audit and Valuation Committee acknowledged that the audit team, including the audit partner, comprised staff with appropriate levels of knowledge and experience. Accordingly, the Audit and Valuation Committee has recommended to the Board that RSM UK Audit LLP be re-appointed as Auditor at the forthcoming AGM. RSM UK Audit LLP has confirmed its willingness to continue in office.

Certain non-audit services may be provided by the external auditor, subject to the level of fees involved, which are not considered to impair the external auditor's independence or objectivity. The Audit and Valuation Committee considered the safeguards in place to protect the external auditor's independence by taking into account RSM UK Audit LLP's report to the Audit and Valuation Committee that its objectivity has not been compromised. The Audit and Valuation Committee agreed that the following services are prohibited from being provided by the external auditor: bookkeeping, payroll, administration services, management functions, executive recruiting and human resource services, broker-dealer services, expert services unrelated to their audit function and actuarial services. This list may also include any service the Audit and Valuation Committee determines is not permissible.

For the year ended 30 June 2019, total fees, plus VAT, charged by RSM UK Audit LLP, together with amounts accrued at 30 June 2019, amounted to £42,000 (2018: £38,000), all of which related to audit services (2018: £38,000).

On behalf of the Audit and Valuation Committee

GAYNOR COLEY
Chairman of the Audit and Valuation Committee
15 October 2019

DIRECTORS' REMUNERATION REPORT

The Directors' Remuneration Report for the year ended 30 June 2019 has been voluntarily prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

Composition

The Remuneration and Nominations Committee comprises all of the Directors of the Company and is chaired by David Stevenson.

The Directors, all of whom are independent non-executive Directors, are the only officers of the Company. Copies of the Directors' letters of appointment are available upon request from the Company Secretary and will be available for inspection at the AGM.

Under the terms of their appointment, each of the independent Directors are typically expected to serve an initial three year term, subject to retirement by rotation in accordance with the Company's Articles of Association. Continuation beyond the initial three year term will be subject to re-election by the Shareholders.

Termination policy

Should a Director not be re-elected by Shareholders, or is retired from office under the Articles of Association, the appointment shall be terminated with immediate effect and without compensation.

A Director may resign at any time by notice in writing to the Board in accordance with the provisions of the Articles of Association.

The Company may terminate a Director's appointment with immediate effect should the Director have:

- committed any serious breach or (after warning in writing) any repeated or continued material breach of their obligations to the Company; or
- been guilty of any act of dishonesty, fraud or serious misconduct or any conduct which (in the reasonable opinion of the Board) tends to bring the Director or Company into disrepute.

Remuneration policy

The Directors shall be paid such remuneration for their services as determined by the Remuneration and Nominations Committee, save that, unless otherwise determined by the Company by ordinary resolution, the Directors' combined remuneration shall not exceed £500,000 per annum.

In setting the level of each non-executive Director's fees, the Company had regard to: the time commitments expected; the level of skill and experience of each Director; and the current market and levels of companies of similar size and complexity. Following this evaluation, the Remuneration and Nominations Committee determined that the fees as set out in this remuneration policy were appropriate.

Under the terms of their appointments as non-executive Directors, the Directors are entitled to the following annual fees:

Ken Hillen – Chairman and chairman of the Management Engagement Committee	£37,500 (£31,250 prior to 18 December 2018)
Gaynor Coley – Chairman of the Audit and Valuation Committee	£31,250 (£25,000 prior to 18 December 2018)
David Stevenson – Chairman of the Remuneration and Nominations Committee	£27,500

All of the Directors are also entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, board or committee meetings or otherwise in connection with the performance of their duties. The Board may determine that additional remuneration may be paid, from time to time, to any one or more Directors in the event such Director or Directors are requested by the Board to perform extra or special services on behalf of the Company. The Directors do not participate in any discussions relating to their own fee, which is determined by the other Directors.

The Company does not pay any remuneration to the Directors for loss of office.

On termination of the appointment, Directors shall only be entitled to such fees as may have accrued to the date of termination, together with reimbursement in the normal way of any expenses properly incurred prior to that date.

For the period from 1 July 2016 to 31 August 2017, Ken Hillen, Chairman of the Audit and Valuation Committee at that time, received an additional £10,000 per annum as remuneration relating to a number of additional responsibilities, undertaken during that period, relating specifically to the loans held within the Company's portfolio.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Annual report on remuneration

Service contracts obligations and payment on loss of office

No Director has a service contract with the Company and, as such, no Director is entitled to compensation payments upon termination of their appointment or loss of office.

Total remuneration paid to each Director

The total remuneration of the Directors for the year ended 30 June 2019 was:

	Year ended 30 June 2019 £	*Year ended 30 June 2018 £*
Ken Hillen	34,665	32,917
Gaynor Coley *(appointed on 8 November 2017)*	28,405	16,218
David Stevenson	27,500	27,500
Richard Hills *(resigned on 18 December 2018)*	17,474	37,500
Total	**108,044**	**114,135**

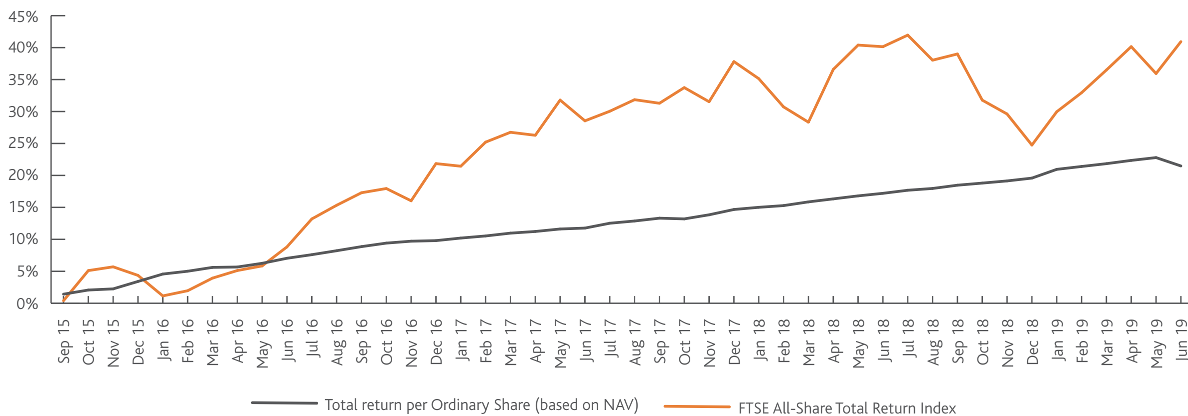
All of the above remuneration relates to salary and fees.

Directors are not eligible for bonuses, share options or long-term incentive schemes or other performance-related benefits. There are no pension arrangements in place for the Directors of the Company. Accordingly, there were no other items in the nature of remuneration, pension entitlements or incentive scheme arrangements which were paid or accrued to the Directors during the year (2018: none).

During the year, no payments were made to persons who had previously been Directors of the Company (2018: none).

Performance graph

The following graph compares the total return on the Company's Ordinary Shares to that of the FTSE All-Share Total Return Index ("ASX Total Return Index") .



DIRECTORS' REMUNERATION REPORT (CONTINUED)

Relative importance of spend on pay

The table below shows the Company's dividend payments compared to the amount spent on pay.

	Year ended 30 June 2019 £	*Year ended 30 June 2018 £*
Total Directors' remuneration	108,044	114,135
Total dividend payments [1]	3,684,118	3,317,602

[1] Total dividend payments includes the interim dividends which were paid from the profits of the Company for the year ended 30 June 2019, including the dividends paid on 26 July 2019 and 23 August 2019 of £307,010 each (2018: £276,467 each), which were not provided for at 30 June 2019 as, in accordance with IFRS, they were not deemed to be liabilities of the Company at that date.

Directors' shareholdings in the Company

Directors are not required under the Company's Articles of Association or letters of appointment to hold shares in the Company. However, as at 30 June 2019, and at the date of this report, Directors' shareholdings in the Company were as follows:

David Stevenson	20,256 Ordinary shares
Ken Hillen	5,000 Ordinary shares
Gaynor Coley	2,000 Ordinary shares

Board diversity

Currently the Board has two male Directors and one female Director. The Remuneration and Nominations Committee considers the current structure, size and composition required of the Board, taking into account the challenges and opportunities facing the Company. In considering future candidates, appointments will be made with regard to a number of different criteria, including diversity of gender, background and personal attributes, alongside the appropriate skills, experience and expertise.

The Remuneration and Nominations Committee, and the Board, are committed to diversity at Board level and are supportive of increased gender diversity.

Implementation of Remuneration Policy

The Company implemented the Directors' Remuneration Policy, after receiving Shareholder approval at the Company's AGM, in the financial year in line with the approach taken to Directors' remuneration during the year under review. This included a review of fees against peer companies and in light of the time commitment and skills of the Directors. However, the Remuneration and Nominations Committee did not recommend any change to those noted in the Remuneration Policy.

On behalf of the Board

DAVID STEVENSON
Chairman of the Remuneration and Nominations Committee
15 October 2019

REGULATORY DISCLOSURES

AIFMD disclosures

In accordance with the Alternative Investment Fund Managers Directive ("AIFMD"), the Company is classified as an Alternative Investment Fund ("AIF") and has appointed SQN US as its Alternative Investment Fund Manager ("AIFM") to provide portfolio management and risk management services to the Company in accordance with the investment management agreement.

The Company is categorised as an externally managed European Economic Area ("EEA") domiciled AIF for the purposes of the AIFMD. As SQN US is a non-EEA AIFM, SQN US is only subject to the AIFMD to the extent that it markets an EEA AIF in the EEA. Therefore, SQN US is required to make certain financial and non-financial disclosures.

Report on remuneration

The AIFMD requires certain disclosures to be made with regard to the remuneration policy of the Company's AIFM.

The total remuneration of the staff of SQN US during the year was £500,000 (2018: £481,000), all fixed remuneration (2018: all fixed remuneration). There were three beneficiaries (2018: three). The aggregate amount of remuneration of senior management and members of staff of SQN US whose actions had a material impact on the risk profile of the Company during the year was £256,000 (2018: £246,000).

Key Information Document ("KID")

The Company's KID, which has been prepared in accordance with the requirements of the packaged retail investment products legislation, is available on the Company's section of the Investment Manager's website (http://www.sqncapital.com/managed-funds/sqn-secured-income-fund/).

Risk disclosures

The financial risk disclosures relating to the risk framework and liquidity risk, as required by the AIFMD, are set out on pages 15 to 16 and in note 24.

Pre-investment disclosures

The AIFMD requires certain information to be made available to investors in AIFs before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. The Company's Prospectus, which sets out information on the Company's investment strategy and policies, leverage, risk, liquidity, administration, management, fees, conflicts of interest and Shareholder information, is available on the Company's website (http://www.sqncapital.com/managed-funds/sqn-secured-income-fund/). Except for the changes to the investment restrictions, which were approved by Shareholders at the general meeting held on 27 April 2017, and the disapplication of pre-emption rights in respect of allotment of shares from treasury representing 20% of the Company's issued Ordinary Share capital, which was approved by Shareholders at the general meeting held on 18 December 2018, there have been no changes to this information requiring disclosure. Any information requiring immediate disclosure pursuant to the AIFMD will be disclosed to the London Stock Exchange.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SQN SECURED INCOME FUND PLC

Opinion

We have audited the financial statements of SQN Secured Income Fund Plc for the year ended 30 June 2019 which comprise Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position, Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Investments – Valuation

Risk:
As disclosed in note 14, the company holds a loan book with a total value of £47.3m as at 30 June 2019. Notes 3(b) and 4 provide related disclosures. The Company has adopted IFRS 9 – 'Financial Instruments' with effect from 1 July 2018 which changes the requirement to provide for impairment on expected loss basis as compared to incurred loss basis under the old standard. As noted in the financial statements different elements of the loan portfolios carry different risk of impairment. Therefore, there is a risk in relation to the valuation and impairment of the loans.

There is significant management judgement involved in assessing the recoverability of these balances, taking into consideration the Company's contractual rights, available evidence of work performed and ongoing commercial negotiations.

In the current year the Company has recognised an impairment of charge of £415,000 and written-off a total of £126,000 in respect of non-performing loans.

How the scope of our audit responded to the risk:
We have reviewed the impairment summary as at 30 June 2019 in line with the methodology and judgements made by the management as described in note 4. Our work included reviewing management's assessment of the allocation of the loans as stage 1, stage 2 or stage 3; obtaining an understanding of the security held where loans were in default; reviewing and verifying a sample of items in relation to the amount and timing of receipts on all significant loans; and reviewing the appropriateness of levels of expected credit losses for loans in each stage, based on available data.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SQN SECURED INCOME FUND PLC (CONTINUED)

Key observations:
Our review and testing of the methodology used by management as noted above included challenge of the assumptions used in the detailed application of the transition to and full application of IFRS9 – this included both the accounting treatment and disclosures in the financial statements.

The judgements in relation to the year-end impairment of the Liftforward platform, as set out in note 4, was also challenged as the impairment amount is subject to a significant judgement.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. During planning materiality for the financial statements as a whole was calculated as £161,000, which was not significantly changed during the course of our audit. We agreed with the Audit & Valuation Committee that we would report to them all unadjusted differences in excess of £6,880, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The Company is a standalone entity subject to a statutory audit.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 60, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements; and
- the strategic report and the director's report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SQN SECURED INCOME FUND PLC (CONTINUED)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of our audit, we will consider the susceptibility of the company to fraud and other irregularities, taking account of the business and control environment established and maintained by the directors, as well as the nature of transactions, assets and liabilities recorded in the accounting records. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs. However, the principal responsibility for ensuring that the financial statements are free from material misstatement, whether caused by fraud or error, rests with management who should not rely on the audit to discharge those functions.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the Audit & Valuation Committee, we were appointed by the board on 9 September 2016 to audit the financial statements for the period ending 30 June 2016 and subsequent financial periods.

The period of total uninterrupted engagement is 4 years, covering the years ending 30 June 2016 to 30 June 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit & Valuation Committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

MALCOLM PIROUET *(Senior Statutory Auditor)*
For and on behalf of
RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street, London EC4A 4AB
15 October 2019

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2019

	Note	*Year ended 30 June 2019 £'000*	*Year ended 30 June 2018 £'000*
Revenue			
Interest income	*3f*	4,026	4,466
Other income		30	1
Total revenue		**4,056**	**4,467**
Operating expenses			
Management fees	*7a*	(513)	(518)
Other expenses	*11*	(169)	(154)
Administration fees	*7b*	(117)	(116)
Directors' remuneration	*8*	(108)	(114)
Transaction fees		(81)	(59)
Broker fee		(79)	(123)
Legal and professional fees		(51)	(72)
Total operating expenses		**(1,118)**	**(1,156)**
Investment gains and losses			
Movement in unrealised gains and losses on loans due to movement in foreign exchange on non-Sterling loans	*14*	110	(46)
Movement in unrealised gains and losses on loans due to movement in impairments	*14*	(415)	(269)
Movement in unrealised gain on investments at fair value through profit or loss	*15*	1	22
Movement in unrealised loss on derivative financial instruments	*17*	(319)	(182)
Realised gain/(loss) on disposal of loans		16	(40)
Realised gain on disposal of investments at fair value through profit or loss	*15*	3	–
Realised loss on disposal of investments held for sale		(51)	–
Realised (loss)/gain on derivative financial instruments	*17*	(206)	21
Total investment gains and losses		**(861)**	**(494)**
Net profit from operating activities before loss on foreign currency exchange		**2,077**	**2,817**
Net foreign exchange gain/(loss)		159	(8)
Profit and total comprehensive income for the year attributable to the owners of the Company		**2,236**	**2,809**
Earnings per Ordinary Share *(basic and diluted)*	*13*	**4.25p**	**5.33p**

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

There were no other comprehensive income items in the year.

Except for unrealised investment gains and losses, all of the Company's profit and loss items are distributable.

The accompanying notes on pages 40 to 60 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2019

	Note	*Called up share capital £'000*	*Special distributable reserve £'000*	*Profit and loss account £'000*	*Total £'000*
At 1 July 2017		577	50,942	529	52,048
Profit for the year	*22*	–	–	2,809	2,809
Transactions with Owners in their capacity as owners:					
Dividends paid	*5, 22*	–	–	(3,318)	(3,318)
Total transactions with Owners in their capacity as owners		–	–	(3,318)	(3,318)
At 30 June 2018		**577**	**50,942**	**20**	**51,539**
Impact of transition to IFRS 9	*3h*	–	–	(23)	(23)
At 1 July 2018 – revised for the application of IFRS 9		**577**	**50,942**	**(3)**	**51,516**
Profit for the year	*22*	–	–	2,236	2,236
Transactions with Owners in their capacity as owners:					
Dividends paid	*5, 22*	–	(689)	(2,934)	(3,623)
Total transactions with Owners in their capacity as owners		–	(689)	(2,934)	(3,623)
At 30 June 2019		**577**	**50,253**	**(701)**	**50,129**

There were no other comprehensive income items in the year.

The above amounts are all attributable to the owners of the Company.

The accompanying notes on pages 40 to 60 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2019

	Note	30 June 2019 £'000	30 June 2018 £'000
Non-current assets			
Loans at amortised cost	14	36,614	31,918
Investments at fair value through profit or loss	15, 16	232	280
Total non-current assets		**36,846**	**32,198**
Current assets			
Loans at amortised cost	14	10,642	12,445
Cash held on client accounts with platforms	14	48	196
Other receivables and prepayments	18	1,141	772
Cash and cash equivalents		1,987	6,125
Total current assets		**13,818**	**19,538**
Total assets		**50,664**	**51,736**
Current liabilities			
Other payables and accruals	19	(184)	(165)
Derivative financial instruments	16, 17	(351)	(32)
Total liabilities		**(535)**	**(197)**
Net assets		**50,129**	**51,539**
Capital and reserves attributable to owners of the Company			
Called up share capital	21	577	577
Other reserves	22	49,552	50,962
Equity attributable to the owners of the Company		**50,129**	**51,539**
Net asset value per Ordinary Share	23	**95.10p**	**97.78p**

These financial statements of SQN Secured Income Fund plc (registered number 09682883) were approved by the Board of Directors on 15 October 2019 and were signed on its behalf by:

KEN HILLEN
Chairman
15 October 2019

GAYNOR COLEY
Director
15 October 2019

The accompanying notes on pages 40 to 60 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2019

	Year ended 30 June 2019 £'000	*Year ended 30 June 2018 £'000*
Cash flows from operating activities		
Net profit before taxation	2,236	2,809
Adjustments for:		
Movement in unrealised gains and losses on loans due to movement in foreign exchange on non-Sterling loans	(110)	46
Movement in unrealised gains and losses on loans due to movement in impairments	415	269
Movement in unrealised gain on investments at fair value through profit or loss	(1)	(22)
Movement in unrealised loss on derivative financial instruments	319	182
Realised (gain)/loss on disposal of loans	(16)	40
Realised gain on disposal of investments at fair value through profit or loss	(3)	–
Realised loss on disposal of investments held for sale	51	–
Realised loss/(gain) on derivative financial instruments	206	(21)
Amortisation of transaction fees	81	59
Interest received and reinvested by platforms	(287)	(595)
Capitalised interest	(915)	(312)
Increase in investments	(2,141)	(3,443)
Taxation paid	–	(5)
Net cash outflow from operating activities before working capital changes	(165)	(993)
Increase in other receivables and prepayments	(369)	(39)
Increase/(decrease) in other payables and accruals	19	(2,901)
Net cash outflow from operating activities	**(515)**	**(3,933)**
Cash flows from financing activities		
Dividends paid	(3,623)	(3,318)
Net cash outflow from financing activities	**(3,623)**	**(3,318)**
Decrease in cash and cash equivalents in the year	**(4,138)**	**(7,251)**
Cash and cash equivalents at the beginning of the year	6,125	13,376
Cash and cash equivalents at 30 June 2019	**1,987**	**6,125**
Supplemental cash flow information		
Non-cash transaction – interest receivable	1,202	907

The accompanying notes on pages 40 to 60 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

1. GENERAL INFORMATION

The Company was incorporated in England and Wales under the Companies Act 2006 on 13 July 2015 with registered number 09682883 and its shares were admitted to trading on the London Stock Exchange Specialist Fund Segment on 23 September 2015 ("Admission").

The Company is an investment company as defined in s833 of the Companies Act 2006.

Investment objective

The investment objective of the Company is to provide Shareholders with attractive risk adjusted returns, principally in the form of regular, sustainable dividends, through investment predominantly in a range of secured loans and other secured loan-based instruments originated through a variety of channels and diversified by way of asset class, geography and duration.

Investment policy

The Company achieves its investment objective by investing in a range of secured loan assets mainly through wholesale secured lending opportunities, secured trade and receivable finance and other collateralised lending opportunities. Loan assets include both direct loans as well as other instruments with loan-based investment characteristics (for example, but not limited to, bonds, loan participations, syndicated loans, structured notes, collateralised obligations or hybrid securities) and may include (subject to the limit set out below) other types of investment (for example, equity or revenue- or profit-linked instruments). The Company may make investments through alternative lending platforms that present suitable investment opportunities identified by the Manager.

The Company will seek to ensure that diversification of its portfolio is maintained, with the aim of spreading investment risk.

2. STATEMENT OF COMPLIANCE

a) Basis of preparation

These financial statements present the results of the Company for the year ended 30 June 2019. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union.

These financial statements have not been prepared in full accordance with the Statement of Recommended Practice ("SORP") for investment trusts issued by the AIC in November 2014 and updated in January 2017 and February 2018 with consequential amendments, as the main driver of the SORP is to disclose the allocation of expenses between revenue and capital, thereby enabling a user of the financial statements to determine distributable reserves. However, with the exception of investment gains and losses, all of the Company's profit and loss items are of a revenue nature as it does not allocate any expenses to capital. Therefore, the Directors believe that full compliance with the SORP would not be of benefit to users of the financial statements. Further details on the distributable reserves are provided in note 22.

b) Basis of measurement

The financial statements have been prepared on a historical cost basis, except for investments at fair value through profit or loss and derivative instruments, which are measured at fair value through profit or loss. The financial statements have been prepared on a going concern basis.

c) Segmental reporting

The Directors are of the opinion that the Company is engaged in a single economic segment of business, being investment in a range of SME loan assets.

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES

a) Foreign currency

Foreign currency transactions are translated into Sterling using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income. Translation differences on non-monetary financial assets and liabilities are recognised in the Statement of Comprehensive Income.

b) Financial assets and liabilities

The financial assets and liabilities of the Company are defined as loans, bonds with loan type characteristics, investments at fair value through profit or loss, cash and cash equivalents, other receivables, derivative instruments and other payables.

Recognition

The Company recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

Initial measurement

Financial assets and financial liabilities at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

Financial assets and financial liabilities not designated as at fair value through profit or loss, such as loans, are initially recognised at fair value, being the amount issued less transaction costs.

Subsequent measurement

After initial measurement, the Company measures financial assets and financial liabilities not designated as at fair value through profit or loss, at amortised cost using the effective interest rate method, less impairment allowance. Gains and losses are recognised in the Statement of Comprehensive Income when the asset or liability is derecognised or impaired. Interest earned on these instruments is recorded separately as investment income.

After initial measurement, the Company measures financial instruments which are classified at fair value through profit or loss at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net gain or loss on financial assets and liabilities at fair value through profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar assets) is derecognised where:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and
- Either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset (or has entered into a pass-through arrangement) and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company’s continuing involvement in the asset.

The Company derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (contInued)

Impairment

Policy effective from 1 July 2018

A financial asset is credit-impaired when one or more events that have occurred have a significant impact on the expected future cash flows of the financial asset. It includes observable data that has come to the attention of the holder of a financial asset about the following events:

- Significant financial difficulty of the issuer or borrower;
- A breach of contract, such as a default or past-due event;
- The lenders for economic or contractual reasons relating to the borrower's financial difficulty granted the borrower a concession that would not otherwise be considered;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for the financial asset because of financial difficulties; or
- The purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

Each direct loan is assessed on a continuous basis by the Investment Manager's own underwriting team with peer review occurring on a regular basis.

Each platform loan is monitored via the company originally deployed to conduct underwriting and management of the borrower relationship. When a potential impairment is identified, the Investment Manager requests data and management information from the platform. The Investment Manager will then actively pursue collections, giving guidance to the platforms on acceptable levels of impairment. In some cases, the Investment Manager will proactively take control of the process.

Impairment of financial assets is recognised on a loan-by-loan basis in stages:

Stage 1: As soon as a financial instrument is originated or purchased, 12-month expected credit losses are recognised in profit or loss and a loss allowance is established. This serves as a proxy for the initial expectations of credit losses. For financial assets, interest revenue is calculated on the gross carrying amount (i.e. without deduction for expected credit losses).

Stage 2: If the credit risk increases significantly and is not considered low, full lifetime expected credit losses are recognised in profit or loss. The calculation of interest revenue is the same as for Stage 1. This stage is triggered by scrutiny of management accounts and information gathered from regular updates from the borrower by way of email exchange or face-to-face meetings. The Investment Manager extends specific queries to borrowers if they acquire market intelligence or channel-check the data received. A covenant breach may be a temporary circumstance due to a one-off event and will not trigger an immediate escalation in risk profile to stage 2.

At all times, the Investment Manager considers the risk of impairment relative to the cash flows and general trading conditions of the company and the industry in which the borrower resides.

Stage 3: If the credit risk of a financial asset increases to the point that it is considered credit-impaired, interest revenue is calculated based on the amortised cost (i.e. the gross carrying amount less the loss allowance). Financial assets in this stage will generally be assessed individually. Lifetime expected credit losses are recognised on these financial assets. This stage is triggered by a marked deterioration in the management information received from the borrower and a view taken on the overall credit conditions for the sector in which the company resides. A permanent breach of covenants and a deterioration in the valuation of security would also merit a move to stage 3.

The Investment Manager also takes into account the level of security to support each loan and the ease with which this security can be monetised. This has a meaningful impact of the way in which impairments are assessed, particularly as the Investment Manager has a very strong track record in managing write-downs and reclaim of assets.

Policy effective before 1 July 2018

A financial asset was impaired when the recoverable amount was estimated to be less than its carrying amount.

An impairment loss was recognised immediately in the Statement of Comprehensive Income, unless the relevant asset was carried at a revalued amount, in which case the reversal of the impairment was treated as a revaluation decrease.

c) Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

d) Receivables and prepayments

Receivables are carried at the original invoice amount, less impairments, as discussed above.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (contInued)

e) Transaction costs

Transaction costs incurred on the acquisition of loans are capitalised upon recognition of the financial asset and amortised over the term of the respective loan.

f) Income and expenses

Interest income and bank interest are recognised on a time-proportionate basis using the effective interest rate method.

Dividend income is recognised when the right to receive payment is established.

All expenses are recognised on an accruals basis. All of the Company's expenses (with the exception of share issue costs, which are charged directly to the distributable reserve) are charged through the Statement of Comprehensive Income in the period in which they are incurred.

g) Taxation

The Company is exempt from UK corporation tax on its chargeable gains as it satisfies the conditions for approval as an investment trust. The Company is, however, liable to UK corporation tax on its income. However, the Company has elected to take advantage of modified UK tax treatment in respect of its "qualifying interest income" in order to deduct all, or part, of the amount it distributes to Shareholders as dividends as an "interest distribution".

h) Changes in accounting policy and disclosures

New and amended standards and interpretations
The Company adopted the following new and amended relevant IFRS in the year:

IFRS 2 Share-based payments

IFRS 9 Financial Instruments

IFRS 15 Revenue from Contracts with Customers

IFRIC 22 Foreign Currency Transactions and Advance Consideration

With the exception of IFRS 9, the adoption of the above standards did not have a significant impact on the financial position or performance of the Company. The impact of the adoption of IFRS 9 on the financial position or performance of the Company is described below, but in summary:

- The Company has continued to measure loans, and other receivables, at amortised cost, and at fair value for all financial assets and liabilities currently held at fair value;
- Expected credit losses are not materially different from incurred losses previously provided due to the use of security on a large portion of the Company's loans; and
- The Company does not designate any hedges as effective hedging relationships.

Impact of adoption of IFRS 9
The Company adopted IFRS 9 with effect from 1 July 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is not applicable to items that had already been derecognised at 1 July 2018, the date of initial application.

i) Classification and measurement
The Company has assessed the classification of financial instruments as at the date of initial application and has applied such classification retrospectively. Based on that assessment:

- All financial assets previously held at fair value continue to be measured at fair value;
- Financial assets previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. Thus, such instruments continue to be measured at amortised cost under IFRS 9; and
- The classification of financial liabilities to which the Company is exposed remains the same under IFRS 9 as under IAS 39.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (contInued)

h) Changes in accounting policy and disclosures (continued)

i) Classification and measurement (continued)

The classification and measurement requirements of IFRS 9 have been adopted retrospectively as of the date of initial application on 1 July 2018. However, the Company has chosen to take advantage of the option not to restate comparatives. Therefore, the 30 June 2018 figures are presented and measured under IAS 39. The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 1 July 2018:

	IAS 39 classification	*IAS 39 measurement £'000*	*IFRS 9 classification*	*IFRS 9 measurement £'000*
Loans at amortised cost	Loans and receivables	44,363	Amortised cost	44,340
Investments at fair value through profit or loss ("FVTPL")	Financial assets at FVTPL	280	FVTPL	280
Cash held on client accounts with platforms	Loans and receivables	196	Amortised cost	196
Other receivables and prepayments	Loans and receivables	772	Amortised cost	772
Cash and cash equivalents	Loans and receivables	6,125	Amortised cost	6,125
Other payables and accruals	Other financial liabilities	(165)	Amortised cost	(165)
Derivative financial instruments	Designated at FVTPL	(32)	FVTPL	(32)
Net assets		**51,539**		**51,516**

ii) Impairment

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis.

IFRS 9 provisioning originally led to a one-off increase in the Company's NAV of 0.94% from 1 July 2018 when the impairments decreased by £483,000 from £699,000 to £217,000 (0.42% of the 30 June 2018 NAV). Since then, the Company's approach to IFRS 9 provisioning has changed (please see pages 11 to 13 of the Investment Manager's Report for more details). In these financial statements, an approach (consistent with that adopted at 30 June 2019) has been followed from 1 July 2018. This has resulted in a decrease in the Company's NAV at 1 July 2018 from the adoption of IFRS 9 of £23,000, instead of the 0.94% increase as originally announced. All material loss provisions are related to platform impairments on investments made before the Investment Manager took control of the portfolio. Since assuming management of the Company on 1 April 2017, SQN Asset Management Limited has reduced platform exposure from 100% to under 50%, delivering on the strategy of providing income from direct lending originated and underwritten solely by the Investment Manager. The Company has managed the risk posed by peer to peer platform exposure effectively and will continue to reduce the overall exposure to these platforms to the target weight of 20% of the whole portfolio.

Given that the adjustment to NAV is driven purely by a revised accounting methodology, underlying performance is unaffected as this change is purely an accounting adjustment and has no bearing on the loans held within the Company.

The carrying amounts of amortised cost instruments continued to approximate those instruments' fair values on the date of transition after transitioning to IFRS 9.

Impact of adoption of IFRS 15

The Company adopted IFRS 15 with effect from 1 July 2018. IFRS 15 replaces IAS 18: *Revenue* and establishes a five-step model to account for revenue arising from contracts with customers. In addition, guidance on interest and dividend income have been moved from IAS 18 to IFRS 15 without significant changes to the requirements. Therefore, there was no impact of adopting IFRS 15 for the Company.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (contInued)

i) Accounting standards issued but not yet effective

The International Accounting Standards Board ("IASB") has issued/revised a number of relevant standards with an effective date after the date of these financial statements. Any standards that are not deemed relevant to the operations of the Company have been excluded. The Directors have chosen not to early adopt these standards and interpretations and they do not anticipate that they would have a material impact on the Company's financial statements in the period of initial application.

		Effective date
IFRS 9	Financial Instruments – *amendments regarding prepayment features with negative compensation and modifications of financial liabilities*	1 January 2019
IAS 1	Presentation of Financial Statements – *amendments regarding the definition of materiality*	1 January 2020
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors – *amendments regarding the definition of materiality*	1 January 2020
IAS 12	Income Taxes – *amendments resulting from annual improvements*	1 January 2019
IFRIC 23	Uncertainty over income tax treatment	1 January 2019

4. USE OF JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires the Directors to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability in future periods.

Estimates and assumptions

The Company based its assumptions and estimates on parameters available when the financial statements were approved. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

i) Recoverability of loans and other receivables

In accordance with IFRS 9, from 1 July 2018, the impairment of loans and other receivables has been assessed as described in note 3b. When assessing the credit loss on a loan, and the stage of impairment of that loan, the Company considers whether there is an indicator of credit risk for a loan when the borrower has failed to make a payment, either capital or interest, when contractually due and upon assessment. The Company assesses at each reporting date (and at least on a monthly basis) whether there is objective evidence that a loan classified as a loan at amortised cost is credit-impaired and whether a loan's credit risk or the expected loss rate has changed significantly. As part of this process:

- Platforms are contacted to determine default and delinquency levels of individual loans; and
- Recovery rates are estimated.

The analysis of credit risk is based on a number of factors and a degree of uncertainty is inherent in the estimation process. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. It is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk. Events that the Company will assess when deciding if a financial asset is credit impaired include:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or past-due event; and
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Although it may not always be the case (e.g. if discussions with a borrower are ongoing), generally a loan is deemed to be in default if the borrower has missed a payment of principal or interest by more than 90 days, unless the Company has good reason not to apply this rule. If the Company has evidence to the contrary, it may make an exception to the 90 day rule to deem that a borrower is, or is not, in default. Therefore the definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit impaired.

At present no direct loans to SMEs fall within Stage 2 or Stage 3. However, if a situation were to arise where a direct loan to an SME were reclassified as Stage 2 or Stage 3, the probability of default and lifetime expected credit loss would be assessed on a case by case basis and would be pertinent to the probability of recovery.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

4. USE OF JUDGEMENTS AND ESTIMATES (contInued)

Estimates and assumptions (continued)

i) Recoverability of loans and other receivables (continued)
IFRS 9 confirms that a Probability of Default ("PD") must never be zero as everything is deemed to have a risk of default; this has been incorporated by the Company. All PDs will be assessed against historic data as well as the prevailing economic conditions at the reporting date, adjusted to account for estimates of future economic conditions that are likely to impact the risk of default. 12-month PD will be applied across the collective as a cumulative in Stage 1, currently set at 2% in line with the Investment Manager's historic performance data, market knowledge, and credit enhancements (this is equivalent to there being 1 default for an average portfolio of 50 unique borrowers. Once an investment moves to Stage 2 then PD will be calculated on an individual basis (and adjusted for Stage 3 if appropriate). All assessment is based on reasonable and supportive information available at the time.

Lifetime ECL will be applied across the collective as a cumulative in Stage 1, split according to the investment's classification. For direct loan investments this is calculated as 2% of the individual investment's Contracted Cash Flows ("CCF"), and 2% of the investment's CCF for platform investments. These Stage 1 Lifetime ECL amounts are taken to be the investments' floor amounts- the Lifetime ECL for any investment can never be less than its floor amount. Once an investment moves to Stage 2 then Lifetime ECL will be calculated on an individual basis. Lifetime ECL will be reviewed at each reporting date based on reasonable and supportive information available at the time.

LiftForward impairment
The Company's largest peer to peer investment is a junior position and represents a risk of write-down. In March 2019, the Investment Manager met with the owner/founder and agreed an incentive plan to expedite collections of the underlying portfolio and agreed a three month period to show improvement. They informed the Company that they had written down a large proportion of this portfolio in their accounts due to a sales process underway at the time. They were advised that if no improvement was forthcoming, the Investment Manager would take over collections and it was explained that the Investment Manager has a good track record, together with its partners, in achieving better recoveries.

In June, having observed slow progress, the Investment Manager began a series of meetings to agree interaction mooted in the previous quarter. Two executives from the investment Manager visited LiftForward in New York in July and August, to agree a process for the way forward and to have an update on the sale of the business. At the time, they were in the middle of a two stage Due Diligence, which caused delays to the provision of information. With effect from 30 June 2019, the Company has impaired this platform exposure by 25% with a 100% expectation of write-down for this part of the portfolio. This is a pre-emptive move and takes into account a best estimate of loans that are now being managed out by attorneys. The decision to use a 25% impairment rate is based upon the Investment Manager's past experience of platform performance.

Whilst a 25% impairment is based on past experience, the amount finally received may be higher or lower than this. A 10% increase or decrease in the impairment on this loan would result in a -/+£226,000 change in the net asset value of the Company.

Non-adjusting event
In September 2019, a loan on one platform was reclassified from stage 1 to stage 2, due to a non-adjusting event that occurred after the year end. As this event occurred post year end and the situation was not in existence at 30 June 2019, the Directors determined that this was a non-adjusting event (see note 26 for further details).

Further details of the judgements applied in assessing the recoverability of loans can be found in the IFRS 9 section of the Investment Manager's Report on pages 11 to 13.

Collateral
While the presence of collateral is not a key element in the assessment of whether there has been a significant increase in credit risk, it is of great importance in the measurement of ECL. IFRS 9 states that estimates of cash shortfalls reflect the cash flows expected from collateral and other credit enhancements that are integral to the contractual terms. Due to the business nature of the Investment Manager, this is a key component of its ECL measurement and interpretation of IFRS 9, as any investment would include elements of (if not all): a fully collateralised position, fixed and floating charges, a corporate guarantee, a personal guarantee, coverage ratios between 130% to 150%, and an average LTV of 85%.

Loans written off
Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. Platform loans of £126,000 were written off in the year (2018: £40,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

4. USE OF JUDGEMENTS AND ESTIMATES (contInued)

Estimates and assumptions (continued)

Renegotiated loans

A loan is classed as renegotiated when the contractual payment terms of the loan are modified because the Company has significant concerns about a borrower's ability to meet payments when due. On renegotiation, the loan will also be classified as credit impaired, if it is not already. Renegotiated loans will continue to be considered to be credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future payments.

All data calculated for IFRS 9 purposes is consistent with the overall methodology employed by SQN across all of its UK public funds. In addition to the methodology used, the Company has taken impairment data from Platforms for the assessment of loans with third party exposure. Again, this is consistent with the approach SQN would expect to take in these circumstances.

There were no new assets originated during the year that were credit-impaired at the point of initial recognition. There were no financial assets that have been modified since initial recognition at a time when the loss allowance was measured at an amount equal to lifetime expected credit losses and for which the loss allowance changed during the year to an amount equal to 12-month expected credit losses.

There were no financial assets for which cash flows were modified in the year while they had a loss allowance measured at an amount equal to the lifetime expected credit loss.

Please see note 3b, note 14 and note 24 for further information on the loans at amortised cost and credit risk.

5. DIVIDENDS

The Company distributes at least 85% of its distributable income earned in each financial year by way of dividends. Following discussions with the Investment Manager regarding the anticipated returns from the Company's portfolio (both in the shorter and longer terms), the Company rebased its annual dividend target to 7.00p per Share, with effect from July 2018. The monthly dividend at the new rate of 0.583p per Share was first paid in September 2018. Over the longer term, the Company will be targeting an annual net asset value total return of at least 8%. The Company intends to continue to pay monthly dividends to Shareholders.

The Company elected to designate all of the dividends for the year ended 30 June 2019 as interest distributions to its Shareholders. In doing so, the Company took advantage of UK tax treatment by "streaming" income from interest-bearing investments into dividends that will be taxed in the hands of Shareholders as interest income.

To date, the Company has declared the following dividends in respect of earnings for the year ended 30 June 2019:

Announcement date	*Pay date*	*Total dividend declared in respect of earnings in the year £'000*	*Amount per Ordinary Share*
30 August 2018	28 September 2018	307	0.583p
25 September 2018	26 October 2018	307	0.583p
25 October 2018	23 November 2018	307	0.583p
29 November 2018	28 December 2018	307	0.583p
21 December 2018	25 January 2019	307	0.583p
30 January 2019	22 February 2019	307	0.583p
28 February 2019	29 March 2019	307	0.583p
27 March 2019	26 April 2019	307	0.583p
24 April 2019	24 May 2019	307	0.583p
29 May 2019	28 June 2019	307	0.583p
25 June 2019	26 July 2019	307	0.583p
25 July 2019	23 August 2019	307	0.583p
Dividends declared (to date) for the year		3,684	7.00p
Less, dividends paid after the year end		(614)	(1.17)p
Add, dividends paid in the year in respect of the prior year		553	1.05p
Dividends paid in the year		3,623	6.88p

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

5. DIVIDENDS (contInued)

In accordance with IFRS, dividends are only provided for when they become a contractual liability of the Company. Therefore, during the year a total of £3,623,000 (2018: £3,318,000) was incurred in respect of dividends, none of which was outstanding at the reporting date (2018: none). The dividends of £307,010 each, which were declared on 25 June 2019 and 25 July 2019, had not been provided for at 30 June 2019 as, in accordance with IFRS, they were not deemed to be liabilities of the Company at that date.

All dividends in the year were paid out of revenue (and not capital) profits.

On 29 August 2019, the Company declared a dividend of 0.583p per Share for the period from 1 July 2019 to 31 July 2019. This dividend will be paid on 27 September 2019.

6. RELATED PARTIES

As a matter of best practice and good corporate governance, the Company has adopted a related party policy which applies to any transaction which it may enter into with any Director, the Investment Manager, or any of their affiliates which would constitute a "related party transaction" as defined in, and to which would apply, Chapter 11 of the Listing Rules. In accordance with its related party policy, the Company obtained: (i) the approval of a majority of the Directors; and (ii) a third-party valuation in respect of these transactions from an appropriately qualified independent adviser.

Loan to Medical Equipment Solutions Limited ("MESL")

In June 2017, the Company loaned £1,380,000 to MESL, whose Chairman is Neil Roberts, who is also chairman of SQN Capital Management, LLC. Loan interest of £104,000 was earned in the year (2018: £127,000), £2,000 of which was outstanding at 30 June 2019 (2018: £3,000). The loan bears interest at 10.0% per annum and is for a period of five years from the date of drawdown. The loan is to be repaid via 60 monthly payments.

At 30 June 2019, the balance of the loan was £909,000 (2018: £1,156,000).

The Directors and the Investment Manager are also considered to be related parties. See notes 7 and 8 for further details.

7. KEY CONTRACTS

a) Investment Manager

The Investment Manager, SQN Asset Management Limited ("SQN UK") and SQN Capital Management, LLC ("SQN US"), has responsibility for managing the Company's portfolio. For their services, the Investment Manager is entitled to a management fee at a rate equivalent to the following schedule (expressed as a percentage of NAV per annum, before deduction of accruals for unpaid management fees for the current month):

- 1.0% per annum for NAV lower than or equal to £250 million;
- 0.9% per annum for NAV greater than £250 million and lower than or equal to £500 million; and
- 0.8% per annum for NAV greater than £500 million.

The management fee is payable monthly in arrears on the last calendar day of each month. No performance fee is payable by the Company to the Investment Manager.

The Company may also incur transaction costs for the purposes of structuring investments for the Company. These costs form part of the overall transaction costs that are capitalised at the point of recognition and are taken into account by the Investment Manager when pricing a transaction. When structuring services are provided by the Investment Manager or an affiliate of them, they shall be entitled to charge an additional fee to the Company equal to up to 1.0% of the cost of acquiring the investment (ignoring gearing and transaction expenses). This cost will not be charged in respect of assets acquired from the Investment Manager, the funds they manage or where they or their affiliates do not provide such structuring advice.

The Investment Manager has agreed to bear all the broken and abortive transaction costs and expenses incurred on behalf of the Company. Accordingly, the Company has agreed that the Investment Manager may retain any commitment commissions received by the Investment Manager in respect of investments made by the Company save that if such commission on any transaction were to exceed 1.0% of the transaction value, the excess would be paid to the Company.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

7. KEY CONTRACTS (contInued)

a) Investment Manager (continued)

With effect from 1 April 2017, the former Investment Manager, Amberton, was appointed as Sub-Investment Adviser to the Investment Manager. From that date, Amberton was no longer directly appointed by the Company and was not entitled to a fee from the Company. The fees of the Sub-Investment Adviser were borne by the Investment Manager. Amberton ceased to act as Sub-Investment Adviser to the Investment Manager with effect from 1 June 2018.

During the year, a total of £513,000 (2018: £518,000) was incurred in respect of management fees, of which £42,000 was payable at the reporting date (2018: £42,000).

b) Administration fees

Elysium Fund Management Limited ("Elysium") is entitled to an administration fee of £100,000 per annum in respect of the services provided in relation to the administration of the Company, together with time based fees in relation to work on investment transactions. During the year, a total of £117,000 (2018: £116,000) was incurred in respect of administration fees, of which £30,000 (2018: £28,000) was payable at the reporting date.

8. DIRECTORS' REMUNERATION

During the year, a total of £108,044 (2018: £114,135) was incurred in respect of Directors' remuneration, none of which was payable at the reporting date (2018: none). No bonus or pension contributions were paid or payable on behalf of the Directors. Further details can be found in the Directors' Remuneration Report on pages 29 to 31.

9. KEY MANAGEMENT AND EMPLOYEES

The Company had no employees during the year (2018: none). Therefore, there were no key management (except for the Directors) or employees during the year.

The following dividends were paid to the Directors during the year by virtue of their holdings of Ordinary Shares (these dividends were not additional remuneration):

Ken Hillen	£344 (2018: £315)
David Stevenson	£1,394 (2018: £1,276)
Gaynor Coley	£12 (2018: none)
Richard Hills *(resigned 18 December 2018)*	£428 (2018: £964)

10. AUDITOR'S REMUNERATION

For the year ended 30 June 2019, total fees, plus VAT, charged by RSM UK Audit LLP, together with amounts accrued at 30 June 2019, amounted to £42,000 (2018: £38,000), all of which related to audit services (2018: £38,000). As at 30 June 2019, £40,000 (2018: £35,000) was due to RSM UK Audit LLP.

11. OTHER EXPENSES

	Year ended 30 June 2019 £'000	*Year ended 30 June 2018 £'000*
Audit fees *(note 10)*	42	38
Registrar fees	37	30
Other expenses	34	48
Directors' national insurance	28	4
Listing fees	17	13
Accountancy and taxation fees	11	8
Custodian fee	–	13
	169	**154**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

12. TAXATION

The Company has received confirmation from HMRC that it satisfied the conditions for approval as an investment trust, subject to the Company continuing to meet the eligibility conditions in s.1158 of the Corporation Tax Act 2010 and the ongoing requirements for approved investment trust companies in Chapter 3 of Part 2 of the Investment Trust (approved Company) Tax Regulations 2011 (Statutory Instrument 2011.2999). The Company intends to retain this approval and self-assesses compliance with the relevant conditions and requirements.

As an investment trust the Company is exempt from UK corporation tax on its chargeable gains. The Company is, however, liable to UK corporation tax on its income. However, the Company has elected to take advantage of modified UK tax treatment in respect of its "qualifying interest income" in order to deduct all, or part, of the amount it distributes to Shareholders as dividends as an "interest distribution".

	Year ended 30 June 2019 £'000	*Year ended 30 June 2018 £'000*
Reconciliation of tax charge:		
Profit before taxation	2,236	2,809
Tax at the standard UK corporation tax rate of 19% (2018: 19%)	425	534
Effects of:		
– Non-taxable investment gains and losses	164	94
– Interest distributions	(589)	(628)
Total tax expense	–	–

Domestic corporation tax rates in the jurisdictions in which the Company operated were as follows:

	Year ended 30 June 2019	*Year ended 30 June 2018*
United Kingdom	19%	19%
Guernsey	nil	nil

Due to the Company's status as an investment trust and the intention to continue to meet the required conditions, the Company has not provided for deferred tax on any capital gains and losses.

13. EARNINGS PER ORDINARY SHARE

The earnings per Ordinary Share of 4.25p (2018: 5.33p) is based on a profit attributable to the owners of the Company of £2,236,000 (2018: £2,809,000) and on a weighted average number of 52,660,350 (2018: 52,660,350) Ordinary Shares in issue since Admission. There is no difference between the basic and diluted earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

14. LOANS AT AMORTISED COST

	Year ended 30 June 2019 £'000	*Year ended 30 June 2018 £'000*
Loans	47,726	44,653
Unrealised loss*	(422)	(94)
Balance at year end	**47,304**	**44,559**
Loans: Non-current	36,614	31,918
Current	10,642	12,445
Cash held on client accounts with platforms	48	196
Loans at amortised cost and cash held on client accounts with platforms	**47,304**	**44,559**
*Unrealised loss		
Foreign exchange on non-Sterling loans	715	605
Impairments	(1,137)	(699)
Unrealised loss	**(422)**	**(94)**

The movement in unrealised gains/losses on loans comprises:

	Year ended 30 June 2019 £'000	*Year ended 30 June 2018 £'000*
Movement in foreign exchange on non-Sterling loans	110	(46)
Movement in impairments	(415)	(269)
Movement in unrealised gains and losses on loans	**(305)**	**(315)**
Impact of transition to IFRS 9	23	–
Total movement in unrealised gains and losses on loans	**(328)**	**(315)**

The weighted average interest rate of the loans as at 30 June 2019 was 10.31% (2018: 9.24%).

The table below details expected credit loss provision ("ECL") of financial assets in each stage at 30 June 2019:

	Stage 1 £'000	*Stage 2 £'000*	*Stage 3 £'000*	*Total £'000*
30 June 2019				
Direct loans [1]	33,032	–	–	33,032
ECL on direct loans	(16)	–	–	(16)
Direct loans net of the ECL	33,016	–	–	33,016
Platform loans [1]	11,585	3,117	426	15,127
ECL on platform loans	(12)	(735)	(374)	(1,121)
Platform loans net of the ECL	11,573	2,382	52	14,007
Accrued interest	799	288	3	1,090
Total loans [1]	44,617	3,117	426	48,160
Total ECL	(28)	(735)	(374)	(1,137)
Total net of the ECL	44,589	2,382	52	47,023

[1] These are the principal amounts outstanding at 30 June 2019 and do not include the capitalised transaction fees, which are not subject to credit risk. At 30 June 2019, the amortised cost of the capitalised transaction fees totalled £233,000.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

14. LOANS AT AMORTISED COST (continued)

The table below details the movements in the year of the principal amounts outstanding and the ECL on those loans:

	Non-credit impaired				*Credit impaired*			
	Stage 1		*Stage 2*		*Stage 3*		*Total*	
	Principal outstanding[1] £'000	*Allowance for ECL £'000*	*Principal outstanding[1] £'000*	*Allowance for ECL £'000*	*Principal outstanding[1] £'000*	*Allowance for ECL £'000*	*Principal outstanding[1] £'000*	*Allowance for ECL £'000*
At 1 July 2018	28,735	(19)	15,679	(310)	535	(393)	44,949	(722)
Transfers from:								
– stage 1 to stage 2	(2,176)	2	2,176	(2)	–	–	–	–
– stage 2 to stage 1	14,801	(52)	(14,801)	52	–	–	–	–
Net re-measurement of ECL arising from transfer of stage	–	41	–	(564)	–	–	–	(523)
Net new and further lending/repayments, and foreign exchange movements	3,257	–	68	89	12	(9)	3,337	80
Loans written-off in the year	–	–	(5)	–	(121)	28	(126)	28
At 30 June 2019	44,617	(28)	3,117	(735)	426	(374)	48,160	(1,137)

[1] These are the principal amounts outstanding at 30 June 2019 and do not include the capitalised transaction fees, which are not subject to credit risk. At 30 June 2019, the amortised cost of the capitalised transaction fees totalled £233,000.

At 30 June 2019, the Board considered £1,137,000 (2018: £699,000) of loans to be impaired:

	30 June 2019 £'000	*30 June 2018[1] £'000*
LiftForward	566	–
Sancus Funding	466	515
MyTripleA	62	80
UK Bond Network	17	104
Direct SME loans	15	–
Other	11	–
Total impairment	**1,137**	**699**

[1] The 30 June 2018 figures were prepared in accordance with IAS 39, not IFRS 9 (see note 3h).

During the year, £126,000 (2018: £40,000) of loans were written off and included within realised gain on disposal of loans in the Statement of Comprehensive Income.

The following table details the impairments of financial assets at 30 June 2018 (prior to the adoption of IFRS 9):

	Unimpaired loans £'000	*Loans in default £'000*	*Total £'000*
30 June 2018			
Direct loans[1]	16,817	–	16,817
Impairment *(prior to adoption of IFRS 9)*	–	–	–
Total (net of the impairment)	16,817	–	16,817
Platform loans[1]	26,064	2,068	28,132
Impairment *(prior to adoption of IFRS 9)*	–	(699)	(699)
Total (net of the impairment)	26,064	1,369	27,433
Total impairment	–	(699)	(699)

[1] These are the principal amounts outstanding at 30 June 2018 and do not include the capitalised transaction fees, which are not subject to credit risk. At 30 June 2018, the amortised cost of the capitalised transaction fees totalled £113,000.

See note 3b and note 4i regarding the process of assessment of loan impairment.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

15. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 30 June 2019 £'000	*Year ended 30 June 2018 £'000*
Balance brought forward	280	258
Disposals in the year	(52)	–
Realised gain on disposal of investments at fair value through profit or loss	3	–
Movement in unrealised gain on investments at fair value through profit or loss	1	22
Balance at year end	**232**	**280**

For further information on the investments at fair value through profit or loss, see note 16.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The following table shows financial instruments recognised at fair value, analysed between those whose fair value is based on:

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

At 30 June 2019, the financial instruments designated at fair value through profit or loss were as follows:

		30 June 2019		
Financial assets/(liabilities)	*Level 1 £'000*	*Level 2 £'000*	*Level 3 £'000*	*Total £'000*
Unlisted equity shares	–	–	232	232
Derivative financial instruments *(note 17)*	–	(351)	–	(351)
Total financial assets/(liabilities) designated as at fair value through profit or loss	**–**	**(351)**	**232**	**(119)**

At 30 June 2018, the financial instruments designated at fair value through profit or loss were as follows:

		30 June 2018		
Financial assets/(liabilities)	*Level 1 £'000*	*Level 2 £'000*	*Level 3 £'000*	*Total £'000*
Unlisted equity shares	–	–	280	280
Derivative financial instruments *(note 17)*	–	(32)	–	(32)
Total financial assets/(liabilities) designated as at fair value through profit or loss	**–**	**(32)**	**280**	**248**

Level 2 financial instruments include foreign currency forward contracts. They are valued using observable inputs (in this case foreign currency spot rates).

Level 3 financial instruments include unlisted equity shares. Net asset value is considered to be an appropriate approximation of fair value as, if the Company were to dispose of these holdings, it would expect to do so at, or around, net asset value.

Transfers between levels

There were no transfers between levels in the year (2018: none).

17. DERIVATIVE FINANCIAL INSTRUMENTS

During the year, the Company entered into foreign currency forward contracts to hedge against foreign exchange fluctuations. The Company realised a loss of £206,000 (2018: profit of £21,000) on forward foreign exchange contracts that settled during the year.

As at 30 June 2019, the open forward foreign exchange contracts were valued at £(351,000) (2018: £(32,000)).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

18. OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2019 £'000	*30 June 2018 £'000*
Accrued interest	1,090	759
Prepayments	27	13
Other receivables	24	–
	1,141	**772**

19. OTHER PAYABLES AND ACCRUALS

	30 June 2019 £'000	*30 June 2018 £'000*
Management fee	42	42
Audit fee	40	35
Administration fee	30	28
Legal fees	25	–
Other payables and accruals	24	18
Directors' national insurance	23	3
Transaction fees	–	20
Deferred investment income	–	19
	184	**165**

20. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

IAS 7 requires the Company to detail the changes in liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's statement of cash flows as cash flows from financing activities.

As at 30 June 2019, the Company had no liabilities classified as cash flows from financing activities (2018: none).

21. SHARE CAPITAL

	30 June 2019 £'000	*30 June 2018 £'000*
Authorised share capital:		
Unlimited number of Ordinary Shares of 1 pence each	–	–
Unlimited C Shares of 10 pence each	–	–
Unlimited Deferred Shares of 1 pence each	–	–
50,000 Management Shares of £1 each	50	50
Called up share capital:		
52,660,350 Ordinary Shares of 1 pence each	527	527
50,000 Management Shares of £1 each	50	50
	577	**577**

The Management Shares are entitled (in priority to any payment of dividend of any other class of share) to a fixed cumulative preferential dividend of 0.01% per annum on the nominal amount of the Management Shares.

The Management Shares do not carry any right to receive notice of, nor to attend or vote at, any general meeting of the Company unless no other shares are in issue at that time. The Management Shares do not confer the right to participate in any surplus of assets of the Company on winding-up, other than the repayment of the nominal amount of capital.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

22. OTHER RESERVES

		Profit and loss account		
	Special distributable reserve £'000	*Distributable £'000*	*Non-distributable £'000*	*Total £'000*
At 30 June 2017	50,942	109	420	51,471
Realised revenue profit	–	3,303	–	3,303
Realised investment gains and losses	–	(19)	–	(19)
Unrealised investment gains and losses	–	–	(475)	(475)
Dividends paid	–	(3,318)	–	(3,318)
At 30 June 2018	**50,942**	**75**	**(55)**	**50,962**
Impact of transition to IFRS 9 *(see note 3h)*	–	–	(23)	(23)
At 30 June 2018 – revised for the application of IFRS 9	**50,942**	**75**	**(78)**	**50,939**
Realised revenue profit	–	3,097	–	3,097
Realised investment gains and losses	–	(238)	–	(238)
Unrealised investment gains and losses	–	–	(623)	(623)
Dividends paid	(689)	(2,934)	–	(3,623)
At 30 June 2019	**50,253**	**–**	**(701)**	**49,552**

With the exception of investment gains and losses, all of the Company's profit and loss items are of a revenue nature as it does not allocate any expenses to capital.

The two £307,010 dividends (see note 5), which were declared on 25 June 2019 and 25 July 2019, will be paid out of the special distributable reserve.

23. NET ASSET VALUE PER ORDINARY SHARE

The net asset value per Ordinary Share is based on the net assets attributable to the owners of the Company of £50,129,000 (2018: £51,539,000), less £50,000 (2018: £50,000), being amounts owed in respect of Management Shares, and on 52,660,350 (2018: 52,660,350) Ordinary Shares in issue at the year end.

Reconciliation to NAV announced on 25 July 2019

Subsequent to the year end, the Company became aware of information in relation to loans on two platforms. In addition, a readjustment to certain credit loss allowances was made to better reflect the underlying conditions of the inherited portfolio and revised judgements of the provisions required under IFRS 9 (please see note 4i and pages 11 to 13 of the Investment Manager's Report for more details). As a result, the loss allowance as at 30 June 2019 for those two platforms has been amended, resulting in a difference in the net asset value disclosed in these financial statements from that announced on 25 July 2019 as follows:

	30 June 2019 £'000	*30 June 2019 pence per share*
Net asset value announced on 25 July 2019	51,153	97.04
Increase in platform loss allowance and associated decrease in accrued loan interest	(1,024)	(1.94)
	50,129	**95.10**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Investment Manager manages the Company's portfolio to provide Shareholders with attractive risk adjusted returns, principally in the form of regular, sustainable dividends, through investment predominantly in a range of secured loans and other secured loan-based instruments originated through a variety of channels and diversified by way of asset class, geography and duration.

The Company will seek to ensure that diversification of its portfolio is maintained, with the aim of spreading investment risk.

Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and monitoring. The Company is exposed to market risk (which includes currency risk, interest rate risk and price risk), credit risk and liquidity risk from the financial instruments it holds. Risk management procedures are in place to minimise the Company's exposure to these financial risks, in order to create and protect Shareholder value.

Risk management structure

The Investment Manager is responsible for identifying and controlling risks. The Board of Directors supervises the Investment Manager and is ultimately responsible for the overall risk management approach within the Company.

The Company has no employees and is reliant on the performance of third party service providers. Failure by the Investment Manager, Administrator, Broker, Registrar or any other third party service provider to perform in accordance with the terms of its appointment could have a significant detrimental impact on the operation of the Company.

The market in which the Company participates is competitive and rapidly changing. The risks have not changed from those detailed on pages 20 to 30 in the Company's Prospectus, which is available on the Company's website.

Risk concentration

Concentration indicates the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location. Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentrations of foreign exchange risk may arise if the Company has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

With the aim of maintaining a diversified investment portfolio, and thus mitigating concentration risks, the Company has established the following investment restrictions in respect of the general deployment of assets.

Investment Restriction	*Investment Policy*
Geography	
– Exposure to UK loan assets	Minimum of 60%
– Minimum exposure to non-UK loan assets	20%
Duration to maturity	
– Minimum exposure to loan assets with duration of less than 6 months	None
– Maximum exposure to loan assets with duration of 6-18 months and 18-36 months	None
– Maximum exposure to loan assets with duration of more than 36 months	50%
Maximum single investment	10%
Maximum exposure to single borrower or group	10%
Maximum exposure to loan assets sourced through single alternative lending platform or other third party originator	25%
Maximum exposure to any individual wholesale loan arrangement	25%
Maximum exposure to loan assets which are neither sterling-denominated nor hedged back to sterling	15%
Maximum exposure to unsecured loan assets	25%
Maximum exposure to assets (excluding cash and cash-equivalent investments) which are not loans or investments with loan-based investment characteristics	10%

The Company complied with the investment restrictions throughout the year and up to the date of signing this report.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (contInued)

Market risk

(i) Price risk

Price risk exposure arises from the uncertainty about future prices of financial instruments held. It represents the potential loss that the Company may suffer through holding market positions in the face of price movements. The investments at fair value through profit or loss (see notes 15 and 16) are exposed to price risk and it is not the intention to mitigate the price risk.

At 30 June 2019, if the valuation of the investments at fair value through profit or loss had moved by 5% with all other variables remaining constant, the change in net assets would amount to approximately +/- £12,000 (2018: +/- £14,000). The maximum price risk resulting from financial instruments is equal to the £232,000 carrying value of the investments at fair value through profit or loss (2018: £280,000).

(ii) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company invests in securities and other investments that are denominated in currencies other than Sterling. Accordingly, the value of the Company's assets may be affected favourably or unfavourably by fluctuations in currency rates and therefore the Company will necessarily be subject to foreign exchange risks.

As at 30 June 2019, a proportion of the net financial assets of the Company, excluding the foreign currency forward contracts, were denominated in currencies other than Sterling as follows:

	Investments at fair value through profit or loss £'000	*Loans and receivables £'000*	*Cash and cash equivalents £'000*	*Other payables and accruals £'000*	*Exposure £'000*	*Foreign currency forward contracts £'000*	*Net exposure £'000*
30 June 2019							
US Dollars	–	4,359	32	–	4,391	(4,625)	(234)
Euros	–	3,658	1	–	3,659	(3,583)	76
	–	**8,017**	**33**	**–**	**8,050**	**(8,208)**	**(158)**
30 June 2018							
US Dollars	–	5,235	1,921	–	7,156	(7,516)	(360)
Euros	63	4,839	628	–	5,530	(5,417)	113
	63	**10,074**	**2,549**	**–**	**12,686**	**(12,933)**	**(247)**

In order to limit the exposure to foreign currency risk, the Company entered into hedging contracts during the year. At 30 June 2019, the Company held foreign currency forward contracts to sell US$11,480,000 and €4,110,000 (2018: US$9,950,000 and €6,140,000) and to buy US$5,610,000 and €120,000 (2018: nil) with a settlement date of 31 July 2019.

Other future foreign exchange hedging contracts may be employed, such as currency swap agreements, futures contracts and options. There can be no certainty as to the efficacy of any hedging transactions.

At 30 June 2019, if the exchange rates for US Dollars and Euros had strengthened/weakened by 5% against Sterling with all other variables remaining constant, net assets at 30 June 2019 would have (decreased)/increased by £(8,000)/£7,000 (2018: £13,000/£(15,000)), after accounting for the effects of the hedging contracts mentioned above.

(iii) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial instruments and cash flow. However, due to the fixed rate nature of the majority of the loans, cash and cash equivalents of £1,987,000 (2018: £6,125,000) were the only interest bearing financial instruments subject to variable interest rates at 30 June 2019. Therefore, if interest rates had increased/decreased by 50 basis points, with all other variables held constant, the change in value of interest cash flows of these assets in the year would have been £10,000 (2018: £31,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (contInued)

Market risk (continued)

(iii) Interest rate risk (continued)

30 June 2019	*Fixed interest £'000*	*Variable interest £'000*	*Non-interest bearing £'000*	*Total £'000*
Financial Assets				
Loans	47,256	–	–	47,256
Cash held on client accounts with platforms	–	–	48	48
Investments at fair value through profit or loss	–	–	232	232
Other receivables	–	–	1,114	1,114
Cash and cash equivalents	–	1,987	–	1,987
Total financial assets	**47,256**	**1,987**	**1,394**	**50,637**
Financial Liabilities				
Other payables	–	–	(184)	(184)
Derivative financial instruments	–	–	(351)	(351)
Total financial liabilities	**–**	**–**	**(535)**	**(535)**
Total interest sensitivity gap	**47,256**	**1,987**	**859**	**50,102**

30 June 2018	*Fixed interest £'000*	*Variable interest £'000*	*Non-interest bearing £'000*	*Total £'000*
Financial Assets				
Loans	44,363	–	–	44,363
Cash held on client accounts with platforms	–	–	196	196
Investments at fair value through profit or loss	–	–	280	280
Other receivables	–	–	759	759
Cash and cash equivalents	–	6,125	–	6,125
Total financial assets	**44,363**	**6,125**	**1,235**	**51,723**
Financial Liabilities				
Other payables	–	–	(146)	(146)
Derivative financial instruments	–	–	(32)	(32)
Total financial liabilities	**–**	**–**	**(178)**	**(178)**
Total interest sensitivity gap	**44,363**	**6,125**	**1,057**	**51,545**

The Investment Manager manages the Company's exposure to interest rate risk, paying heed to prevailing interest rates and economic conditions, market expectations and its own views as to likely moves in interest rates.

Although it has not done so to date, the Company may implement hedging and derivative strategies designed to protect investment performance against material movements in interest rates. Such strategies may include (but are not limited to) interest rate swaps and will only be entered into when they are available in a timely manner and on terms acceptable to the Company. The Company may also bear risks that could otherwise be hedged where it is considered appropriate. There can be no certainty as to the efficacy of any hedging transactions.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (contInued)

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company, resulting in a financial loss to the Company.

At 30 June 2019, credit risk arose principally from cash and cash equivalents of £1,987,000 (2018: £6,125,000) and balances due from the platforms and SMEs of £47,304,000 (2018: £44,559,000). The Company seeks to trade only with reputable counterparties that the Investment Manager believes to be creditworthy.

The Company's credit risks principally arise through exposure to loans provided by the Company, either directly or through platforms. These loans are subject to the risk of borrower default. Where a loan has been made by the Company through a platform, the Company will only receive payments on those loans if the corresponding borrower through that platform makes payments on that loan. The Investment Manager has sought to reduce the credit risk by obtaining security on the majority of the loans and by investing across various platforms, geographic areas and asset classes, thereby ensuring diversification and seeking to mitigate concentration risks, as stated in the "risk concentration" section earlier in this note.

The cash pending investment or held on deposit under the terms of an Investment Instrument may be held without limit with a financial institution with a credit rating of "single A" (or equivalent) or higher to protect against counterparty failure.

The Company may implement hedging and derivative strategies designed to protect against credit risk. Such strategies may include (but are not limited to) credit default swaps and will only be entered into when they are available in a timely manner and on terms acceptable to the Company. The Company may also bear risks that could otherwise be hedged where it is considered appropriate. There can be no certainty as to the efficacy of any hedging transactions.

Please see note 3b and note 4 for further information on credit risk.

Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulties in realising assets or otherwise raising funds to meet financial commitments. The principal liquidity risk is contained in unmatched liabilities. The liquidity risk at 30 June 2019 was low since the ratio of cash and cash equivalents to unmatched liabilities was 4:1 (2018: 31:1).

The Investment Manager manages the Company's liquidity risk by investing primarily in a diverse portfolio of loans, in line with the Prospectus and as stated in the "risk concentration" section earlier in this note. The maturity profile of the portfolio, as detailed in the Investment Manager's Report, is as follows:

	30 June 2019 Percentage	*30 June 2018 Percentage*
0 to 6 months	11.6	17.0
6 months to 18 months	31.2	25.3
18 months to 3 years	24.8	16.6
Greater than 3 years	32.4	41.1
	100.0	**100.0**

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the Company. The Company's capital comprises issued share capital, retained earnings and a distributable reserve created from the cancellation of the Company's share premium account.

To maintain or adjust the capital structure, the Company may issue new Ordinary and/or C shares, buy back shares for cancellation or buy back shares to be held in treasury. During the year ended 30 June 2019, the Company did not issue any new Ordinary or C shares, nor did it buy back any shares for cancellation or to be held in treasury (2018: none).

The Company is subject to externally imposed capital requirements in relation to its statutory requirement relating to dividend distributions to Shareholders. The Company meets the requirement by ensuring it distributes at least 85% of its distributable income by way of dividend.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 (continued)

25. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

There were no contingent assets or contingent liabilities in existence at the year end (2018: none).

26. EVENTS AFTER THE REPORTING PERIOD

Dividends

Two dividends of 0.583p per Ordinary Share, which (in accordance with IFRS) were not provided for at 30 June 2019, have been declared out of the profits for the year ended 30 June 2019 (see note 5).

On 29 August 2019, the Company declared a dividend of 0.583p per Ordinary Share for the period from 1 July 2019 to 31 July 2019. This dividend was paid on 27 September 2019. On 25 September 2019, the Company declared a dividend of 0.583p per Ordinary Share for the period from 1 August 2019 to 31 August 2019. This dividend will be paid on 25 October 2019.

Platform impairments

Subsequent to the year end, the Company became aware of information in relation to loans on three platforms. As a result:

- The loss allowance and accrued loan interest as at 30 June 2019 for two of the platforms has been amended, resulting in a difference in the net asset value disclosed in these financial statements from that announced on 25 July 2019 (see the reconciliation in note 23); and
- In September 2019, a loan on one platform was reclassified from stage 1 to stage 2, due to a non-adjusting event that occurred after the year end. This has resulted in an increase in the loss allowance on that platform post year end of £832,000. The principal outstanding and the loss allowance on this loan at the year end were £8,322,000 and £8,322 respectively. In September 2019, the loss allowance was increased by £832,000 to £840,000, with the principal remaining at £8,322,000, thereby reducing the net assets and profit, with effect from September 2019, by £832,000.

There were no other significant events after the reporting period.

27. PARENT AND ULTIMATE PARENT COMPANY

The Directors do not believe that the Company has an individual Parent or Ultimate Parent.

NOTICE OF ANNUAL GENERAL MEETING
SQN SECURED INCOME FUND PLC

(incorporated in England and Wales with registered number 09682883 and registered as an investment company under section 833 of the Companies Act 2006) (the "Company")

NOTICE is hereby given that an annual general meeting of the Company (the "AGM") will be held at the offices of SQN Asset Management Limited, Melita House, 124 Bridge Road, Chertsey, Surrey KT16 8LA on 17 December 2019 at 1:30pm to consider and, if thought fit, to pass the following resolutions, resolutions 1-9 which are proposed as ordinary resolutions and resolutions 10 and 11 which are proposed as special resolutions:

ORDINARY BUSINESS

1. To receive the Company's audited financial statements for the year ended 30 June 2019, together with the Directors' Report and the Independent Auditor's Report on those statements.

2. To approve the Directors' Remuneration Policy.

3. To approve the Remuneration Report for the year ended 30 June 2019.

4. To re-elect RSM UK Audit LLP as auditor of the Company until the conclusion of the next annual general meeting.

5. To authorise the Company's Audit and Valuation Committee to determine the remuneration of the auditor.

6. To re-elect Gaynor Coley as a Director of the Company.

7. To re-elect Kenneth James Gribben Hillen as a Director of the Company.

8. To re-elect David Clive Stevenson as a Director of the Company.

SPECIAL BUSINESS

9. That, in addition to any existing authorities, the Directors of the Company be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "**CA 2006**") to exercise all the powers of the Company to allot equity securities (within the meaning of section 560(1) of the CA 2006) in the Company up to an aggregate nominal amount of £105,320.70 (representing 20% of the issued Ordinary Share capital of the Company as at the date of this notice of AGM), such authority to expire at the conclusion of the Company's next annual general meeting to be held in 2020, save that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the authority conferred by this Resolution 9 had not expired.

   Explanatory note:

   As a result of the Prospectus Regulation (2017/1129/EU) coming into force, the Company is now able to issue Ordinary Shares representing less than 20% of the number of Ordinary Shares in issue over a rolling 12-month period without publishing a prospectus. To allow the Company to take full advantage of this, the Board is seeking authority to issue Ordinary Shares up to an aggregate nominal value of £105,320.70, representing approximately 20% of the issued Ordinary Share capital of the Company at the date of this notice of AGM. This authority will expire at the conclusion of the Company's next annual general meeting in 2020 and will allow the Company to take advantage of market opportunities to raise additional capital should there be an appropriate level of demand from investors.

   No Ordinary Shares will be issued for cash at a price less than the prevailing net asset value per Ordinary Share at the time of issue pursuant to this authority. The Directors intend to seek renewal of this authority at each annual general meeting thereafter.

10. That, subject to and conditional upon the passing of Resolution 9, and in accordance with sections 570 and 573 of the Companies Act 2006, the Directors of the Company be and are hereby empowered pursuant to section 570 and section 573 of the Companies Act 2006 to allot equity securities (as defined in section 560(1) of the Companies Act 2006) for cash pursuant to the authority conferred on the Directors by Resolution 9 and to sell Ordinary Shares from treasury for cash, as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, up to an aggregate nominal amount of £105,320.70 (representing approximately 20% of the issued Ordinary Share capital of the Company as at the date of this notice of AGM), such power to expire at the conclusion of the Company's next annual general meeting in 2020 (unless previously renewed, varied or revoked by the Company in general meeting) save that the Company may, at any time prior to the expiry of such power, make an offer or enter into an agreement which would or might require equity securities to be allotted or sold from treasury after the expiry of such power and the Directors may allot or sell equity securities from treasury in pursuance of such an offer or agreement as if such power had not expired.

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

SPECIAL BUSINESS (continued)

Explanatory note:

The Directors require specific authority from Shareholders before allotting new Ordinary Shares (or selling Ordinary Shares held by the Company in treasury) for cash (pursuant to the authority proposed at Resolution 9 above) without first offering them to existing Shareholders in proportion to their holdings. Resolution 10 authorises the Directors to allot new Ordinary Shares (or to sell Ordinary Shares held by the Company in treasury) for cash, otherwise than to existing Shareholders on a pro rata basis, up to such number of Ordinary Shares as is equal to 20% of the Ordinary Shares in issue as at the date of this notice of AGM. No issue of new Ordinary Shares (or sale of Ordinary Shares held by the Company in treasury) will be made on a non-pre-emptive basis pursuant to Resolution 10 at a price less than the prevailing net asset value per Ordinary Share at the time of issue (or sale).

The authority conferred by Resolution 10 will expire at the conclusion of the Company's next annual general meeting in 2020, unless previously renewed, varied or revoked by the Company in general meeting.

11. That the Company be and is hereby generally authorised, in accordance with section 701 of the Companies Act 2006, to make market purchases (within the meaning of section 693(4) of the Companies Act 2006) of Ordinary Shares in the capital of the Company, provided that:

a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 7,893,786 (or, if less, the number representing 14.99% of the issued Ordinary Share capital of the Company as at the date of this notice of AGM);

b) the minimum price which may be paid for an Ordinary Share shall be £0.01;

c) the maximum price, exclusive of expenses, which may be paid for an Ordinary Share shall be the higher of:

(i) 5% above the average of the mid-market values of the Ordinary Shares for the five business days before the purchase is made; and

(ii) that stipulated by the regulatory technical standards adopted by the EU pursuant to the regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse ("MAR");

d) such authority shall expire at the earlier of (i) the date on which the maximum number of Ordinary Shares authorised to be purchased pursuant to this Resolution 11 have been purchased by the Company, (ii) the conclusion of the next annual general meeting of the Company to be held in 2020 and (iii) the date which is 18 months from the date on which this authority is passed; and

e) the Company may, before the expiry of this authority, make a contract to purchase Ordinary Shares under such authority which will or may be executed wholly or partly after its expiration and the Company may make a purchase of Ordinary Shares pursuant to any such contract.

Explanatory note:

The Board monitors the level of the Ordinary Share price compared to the NAV per Ordinary Share. Where appropriate on investment grounds, the Company may from time to time repurchase its Ordinary Shares, but the Board recognises that movements in the Ordinary Share price, premium or discount, are driven by numerous factors, including investment performance, gearing and market sentiment. Accordingly, it focuses its efforts principally on addressing sources of risk and return as the most effective way of producing long term value for Shareholders. Any repurchase of Ordinary Shares will be made subject to applicable laws and regulations and within any guidelines established from time to time by the Board. The making and timing of any repurchases will be at the absolute discretion of the Board, although the Board will have regard to the effects of any such repurchase on long-term Shareholders in exercising its discretion.

Purchases of Ordinary Shares will only be made through the market for cash at prices below the prevailing NAV of the Ordinary Shares (as last calculated) where the Directors believe such purchases will enhance shareholder value. Such purchases will also only be made in accordance with applicable provisions of the CA 2006, the Listing Rules and MAR. Any Ordinary Shares purchased under this authority will be cancelled or may be held in treasury.

The authority conferred by Resolution 11 will expire at the earlier of (i) the date on which the maximum number of Ordinary Shares authorised to be purchased pursuant to this Resolution 11 have been purchased by the Company, (ii) the conclusion of the next annual general meeting of the Company to be held in 2020 and (iii) the date which is 18 months from the date on which this authority is passed.

By order of the Board Registered Office:
SQN SECURED INCOME FUND PLC
15 October 2019

Level 13
Broadgate Tower
20 Primrose Street
London
EC2A 2EW

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

Notes to the Notice of Annual General Meeting

1. A member entitled to attend and vote at the AGM may appoint a proxy or proxies to attend, speak and vote instead of him or her. A proxy need not be a member of the Company. A Form of Proxy is enclosed which, if used, must be lodged at the Company's Registrars, Link Asset Services, at PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF no later than 48 hours before the AGM (ignoring any part of a day that is not a working day), being 13 December 2019. To appoint more than one proxy you may photocopy the Form of Proxy. You may appoint a person other than the Chairman as your proxy. Please indicate the proxy holder's name and the number of Shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of Shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by looking at the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first being the most senior). The completion and return of the Form of Proxy will not preclude a member from attending the AGM and voting in person.

2. To be entitled to attend and vote at the AGM (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's Register of Members at close of business on 13 December 2019. If the AGM is adjourned then, to be so entitled, members must be entered on the Company's Register of Members at the time which is 48 hours before the time fixed for the adjourned AGM or, if the Company gives notice of the adjourned AGM, at the time specified in that notice.

3. As at 23 September 2019 (being the latest practicable date prior to the publication of this notice) the Company's issued share capital consisted of 52,660,350 Ordinary Shares, carrying one vote each. There are no shares held in treasury. Therefore, as at 23 September 2019, the total number of voting rights in the Company is 52,660,350.

4. The vote "Withheld" is provided to enable you to abstain on any particular resolution. However, it should be noted that a "Withheld" vote is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" and "Against" a resolution.

5. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent ID (RA10) by the latest time(s) for receipt of proxy appointments specified in this notice of AGM. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

6. Any person to whom this notice of AGM is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "**Nominated Person**") may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights.

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

7. Corporate representatives are entitled to attend and vote on behalf of a corporate member in accordance with section 323 of the Companies Act 2006. In accordance with the provisions of the Companies Act 2006, each such representative may exercise (on behalf of the corporate member) the same powers as the corporate member could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is no longer necessary to nominate a designated corporate representative.

8. Members have a right under section 319A of the Companies Act 2006 to require the Company to answer any question raised by a member at the AGM, which relates to the business being dealt with at the meeting, although no answer need be given: (a) if to do so would interfere unduly with the preparation of the meeting or involve disclosure of confidential information; (b) if the answer has already been given on the Company's website; or (c) if it is undesirable in the best interests of the Company or the good order of the meeting.

9. A copy of this notice of AGM, and other information required by section 311A of the Companies Act 2006, can be found at http://www.sqncapital.com/managed-funds/sqn-secured-income-fund/.

10. To be passed, an ordinary resolution requires a simple majority of the votes cast by those members voting in person or by proxy at the AGM (excluding any votes to be withheld) to be voted in favour of the resolution.

11. To be passed, a special resolution requires a majority of at least 75% of the votes cast by those members voting in person or by proxy at the AGM (excluding any votes which are withheld) to be voted in favour of the resolution.

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Ken Hillen *(non-executive Chairman)*
Gaynor Coley *(non-executive Director)*
David Stevenson *(non-executive Director)*

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