Secured Income Fund plc

(formerly SQN Secured Income Fund plc)

(Registered number 09682883)

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 30 June 2020

Contents

Key Points

NET ASSETS[1]
£45,532,000
(30 June 2019: £50,129,000)

DIVIDEND PER SHARE DECLARED IN RESPECT OF THE YEAR
7.00p
(30 June 2019: 7.00p)

NAV PER ORDINARY SHARE
86.37p
(30 June 2019: 95.10p)

DIVIDEND COVER
0.44
(30 June 2019: 0.79)

SHARE PRICE
76.50p
(30 June 2019: 92.00p)

TOTAL RETURN PER ORDINARY SHARE (BASED ON NAV)[2]
-1.8%
(30 June 2019: +4.4%)

DISCOUNT TO NAV
11.4%
(30 June 2019: 3.3%)

TOTAL RETURN PER ORDINARY SHARE (BASED ON SHARE PRICE)[2]
-9.2%
(30 June 2019: +8.2%)

(LOSS)/PROFIT FOR THE YEAR
£(913,000)
(30 June 2019: £2,236,000)

ORDINARY SHARES IN ISSUE
52,660,350
(30 June 2019: 52,660,330)

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

[2] Total return per Ordinary Share has been calculated by comparing the NAV or share price, as applicable, at the start of the year with the NAV or share price, as applicable, plus dividends paid, at the year end.

Overview and Investment Strategy

General information

Secured Income Fund plc (the "Company", "Fund" or "SIF") 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").

Change of Investment Manager

On 5 June 2020, the Company novated the contract to manage the portfolio to KKV Investment Management Limited (the "Investment Manager" or "KKV"), following the management team into their new entity from SQN Asset Management Limited ("SQN UK" or the "Former Investment Manager").

Change of name

On 18 July 2020, the Company changed its name from SQN Secured Income Fund plc to Secured Income Fund plc.

Continuation vote

On 19 June 2020, the Company held a continuation vote (the "Continuation Vote") that, in line with the Directors' recommendation, did not pass. This vote was required under the Articles as the Company did not have a Net Asset Value of at least £250 million as at 31 December 2019. As the Continuation Vote did not pass, the Directors (as required under the Articles) convened a further general meeting of the Company on 17 September 2020 at which Shareholders approved the managed wind-down of the Company.

Investment objective and policy

On 17 September 2020, the Shareholders approved the adoption of a new investment objective and policy of the Company, as follows:

The Company will be managed with the intention of realising all remaining assets in the Portfolio in a prudent manner consistent with the principles of good investment management and with a view to returning cash to Shareholders in an orderly manner.

The Company will pursue its investment objective by effecting an orderly realisation of its assets in a manner that seeks to achieve a balance between maximising the value received from those assets and making timely returns of capital to Shareholders. This process might include sales of individual assets, mainly structured as loans, or running off the Portfolio in accordance with the existing terms of the assets, or a combination of both.

As part of the realisation process, the Company may also exchange existing debt instruments for equity securities where, in the opinion of the Board, the Company is unlikely to be able to otherwise realise such debt instruments or will only be able to realise them at a material discount to the outstanding principal balance of that debt instrument.

The Company will cease to make any new investments or to undertake capital expenditure except where, in the opinion of both the Board and the Investment Manager (or, where relevant, the Investment Manager's successors):

- the investment is a follow-on investment made in connection with an existing asset in order to comply with the Company's pre-existing obligations; or
- failure to make the follow-on investment may result in a breach of contract or applicable law or regulation by the Company; or
- the investment is considered necessary to protect or enhance the value of any existing investments or to facilitate orderly disposals.

Any cash received by the Company as part of the realisation process prior to its distribution to Shareholders will be held by the Company as cash on deposit and/or as cash equivalents.

The Company will not undertake new borrowing.

Any material change to the investment policy would require Shareholder approval.

Overview and Investment Strategy (continued)

Investment objective and policy *(continued)*
Prior to 17 September 2020, the investment objective and policy was as follows:

Investment objective
The investment objective of the Company was 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 achieved 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 included 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 have included (subject to the limit set out below) other types of investment (for example, equity or revenue- or profit-linked instruments). The Company may have made investments through alternative lending platforms that present suitable investment opportunities identified by the Investment Manager.

Chairman's Statement

Introduction

I am pleased to provide Shareholders with my first Chairman's statement, covering the financial year from 1 July 2019 to 30 June 2020. Over the reporting period, the Company has continued to reduce platform and third party debt. Despite continued macro uncertainty caused by Brexit, wider geopolitical issues and the onset of the Covid-19 pandemic, income has continued to be delivered for Shareholders.

Secured Income Fund plc (LSE: SSIF) is a UK-listed specialist investment trust with a focus on secured investments that produce regular, collateralised income from investments made in a portfolio of loans to lower middle market companies in the UK and the rest of the world.

Performance

All loans underwritten since April 2017 are performing in line with expectations however, the impact of Covid-19 has meant a requirement to relax some covenants, with deferral of interest and the maturity of some loans. The Investment Manager has continued to strive to limit legacy third party exposure and as at 30 June 2020 this portion of the overall portfolio had been reduced to £9.8 million (including accrued interest) from £15.2 million at 30 June 2019. It is noted that progress in reducing peer to peer loan exposure has slowed as we approach the residual of this segment and aged positions have now been impaired.

For the reporting period ended 30 June 2020, the Company has generated a net loss of £0.9 million (2019: profit of £2.2 million), a loss per Ordinary Share of 1.73p (2019: profit per Ordinary Share of 4.25p). The Company's NAV at 30 June 2020 was £45.5 million (86.37p (cum income) per Ordinary Share) compared to £50.1 million (95.10p per Ordinary Share) as at 30 June 2019. The total return for the reporting period was a loss of 1.8% (2019: total return of 4.4%).

Foreign exchange exposure on the 26.1% of non-Sterling loans has continued to be 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 Covid-19 impact and 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

On 5 June 2020, the Company novated the contract to manage the portfolio to KKV Investment Management Limited, following the management team into their new entity. This provides continuity of management and allows for the opportunity for a smooth run-off of the portfolio. Detail on the new manager is provided in our accompanying Investment Manager's Report.

Upon the recommendation of the Board, in June 2020, Shareholders voted to wind the Company up. This decision was made after the Company was unable to raise new capital and meet its original goal to increase shareholder capital to £250 million by December 2019. The Board of Directors and the Investment Manager have now begun work on an orderly wind-down of the business and hope to return capital to investors expeditiously, avoiding capital erosion. In anticipation of a vote to wind-down the Company, the Board instructed the Investment Manager to cease all new underwriting commitments from January 2020 and only one commitment of €1.4 million to an existing counterparty, an Irish SME and Leasing Fund, remains in place, although negotiation will take place to consider withdrawing from this further investment.

We have also reviewed costs in recent months and have taken steps to reduce ongoing expenses going forward. These measures have included a mutually agreed reduction in investment management fees to 0.75% for 12 months from 18 September 2020, and thereafter to 0.55%. Advisor and PR costs have also been reduced post year-end to allow for better value for money for Shareholders. The amendment date from which these changes will take effect is 17 September 2020.

Dividends

The Company elected to designate all dividends for the period ended 30 June 2020 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 intended to distribute at least 85% of its distributable income by way of dividends on a monthly basis, retaining some of the distributable income as a loss reserve to smooth future dividend flows.

The Company has maintained its dividend of 7.00p for the reporting period. During the reporting period, dividend cover has fluctuated due to specific transaction flows, impairment of peer to peer and venture debt positions and the decision not to apply leverage until more platform and peer to peer investments had been removed from the portfolio.

Chairman's Statement (continued)

Dividends *(continued)*
As a consequence of the decision to proceed with a managed wind-down, the Board has reviewed the dividend policy going forward and has decided to cease paying monthly dividends and intends to pay quarterly dividends as well as returning excess capital as and when the Company has excess cash reserves available for distribution.

Discount
During the reporting period, the Company traded at an average discount to NAV of 7.74%.

Board of Directors
In May 2020, Ken Hillen resigned as Chairman of the Company and I would like to thank him on behalf of the Board and Shareholders for his work over his tenure in the role.

In order to maintain strong corporate governance, the remaining Directors embarked on a recruitment exercise and in July 2020, appointed Brett Miller as a Director of the Company. Brett brings significant experience of closed end funds and the alternative lending sector and has experience of working with companies that are in wind-down and so we welcome him to the Board and look forward to his positive contribution over the remainder of the life of the Company.

Outlook
During the reporting period impairments to aged legacy peer to peer positions dampened NAV performance. Despite this, a healthy cash balance has enabled the continued payment of dividends. In addition, we anticipate to be able to commence some return of capital to Shareholders in the first half of the next reporting period.

The Board expects the 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. However, as stated, we have already taken steps to reduce costs and will continue to do this over the coming months. If we are able to identify a suitable buyer to purchase some or all of the existing direct loan portfolio to expedite early capital return, the Board will also consider these proposals. Our goal in the managed wind-down is to achieve a balance between maximising the value received from those assets and making timely returns of capital to Shareholders.

Market conditions have been very challenging. The Investment Manager has worked with borrowers to ensure that their businesses remain "alive" since the onset of the pandemic and so far, no impairment provisions have been considered necessary for this element of the portfolio. These decisions have been taken after careful consideration of PRA guidance and IFRS 9 treatment of such loans. Specific Covid-19 guidance has been issued by the PRA, details of which are outlined further within the Investment Manager's Report. However, the Investment Manager considers that the most challenging period is ahead of us, as various furlough and bounce back assistance is withdrawn from the economy with Q4 2020 and Q1 2021 presenting a risk to our borrowers. We will keep investors informed of any developments as they occur, in the months to come.

We thank investors for their continued support during this period and hope that the consistent high level of income has provided at least a degree of solace as the Board and the Investment Manager now work on a constructive plan to return capital to Shareholders.

David Stevenson
Chairman
8 October 2020

Investment Manager's Report

Overview
KKV Investment Management Limited ("KKV") assumed investment management responsibility for the Company on 5 June 2020.

Following the decision by Shareholders not to support continuation, we are working hard on plans to return capital to Shareholders in as expeditious a way as possible without damaging capital value.

We are again able to report continued steady progress in delivering a 7.00p dividend despite having to impair aged legacy debt held within the portfolio. The Company has continued to reduce peer to peer lending to only 0.5% of the portfolio and has reduced legacy exposure overall to 21.5%. IFRS 9 impairment provisions have been increased on legacy investments and now stands at 8.88% of the total NAV value. The Company has no debt.

Since our last report when we expressed concern regarding Brexit impact on the UK economy, events have overtaken somewhat, and we are now in the grips of a global pandemic. Despite both these challenges, we have not had cause to impair our direct loan exposures to date but we have applied a sensible and pragmatic approach to helping our borrowers get through this unprecedented period with amortisation, interest and covenant relief. We are mindful that businesses rarely fail over a covenant breach and that in times of significant stress, cash balances remain key. These measures have been taken having considered guidance from the PRA on monitoring our borrowers in relation to IFRS 9 provisioning, where the directive is to ensure appropriate consideration of expected credit losses and risk of default etc. It explains that Covid-19 related measures do not automatically lead to direct increase in risk of default or increase in the stage of the loans in the IFRS 9 categories. Management are still required to assess the risk and particulars of each loan and consider whether there is any increase in the probability of default when assessing for impairment, and the Company has not had cause to credit impair any of our direct loan exposures to date as the outlook has remained reasonably comfortable. However, as the pandemic draws on into the second half of the year, with heightened risk of a second wave, we will keep this decision under regular review.

Since the Company's financial year end, we had observed an improvement in the performance of our direct loan exposure with borrowers reporting better performance in terms of sales and general business activity. However, since the beginning of September we have noted a marked increase in overall volatility and a generic uncertainty in the SME sector which has a particular pertinence to the industries and types of loan to wholesale providers that our loan book targets. We have undergone a rigorous review of our processes and monitoring of these loans with no cause for concern with regard to specific debt service, but given the nature of the portfolio, it would be unwise of us to ignore the elevated risk that this uncertainty represents to our borrowers and to flag the loan loss provisions we may have to apply in the future as the global economy braces itself for further economic contraction.

Throughout the Covid-19 pandemic, we have increased our interaction with borrowers and received far more regular trading updates from them than we would ordinarily request; our relationships with these counterparties have remained strong and we have welcomed the transparency and the open dialogue with which they have provided this information. In some cases where required, we have awarded maturity extensions and amortisation holidays to allow them time to adjust to the prevailing operating conditions. We are pleased that there have been no defaults which we consider testament to the strong active management deployed by our team and would expect that under normal market conditions to return the full capital value of the loans to our investors upon maturity. However, in the shorter term, the impact of the macro economy on trading conditions could be detrimental, meaning that loss provisioning may need to increase and we consider this to be prudent risk management under extenuating circumstances.

We have provided a thorough review of each of our investments in the following commentary with a higher than usual level of disclosure for investments in the private domain and of this nature. We will continue to review and undertake ongoing due diligence in relation to these loans to ensure that any future impairments caused by the unprecedented economic circumstances are recognised appropriately.

Investment Manager's Report (continued)

Background

KKV assumed the role of portfolio manager for Secured Income Fund plc on 5 June 2020 via a novation arrangement. This new business is owned by Kvika banki, an Icelandic bank specialising in asset management with a total of EUR 3 billion assets under management with KKV representing 16% of this total.

Despite opening for business during a global pandemic, we are pleased to report that the company was able to commence operational management with few glitches. KKV has the use of three offices in London and Surrey but all employees have been equipped to work remotely throughout the current Covid-19 Emergency with the majority choosing to do so. All processes are functioning and business continuity has been maintained to a good level. The transition of employees under the TUPE scheme has been completed and a good start has been made to their working relationships with new colleagues.

The analyst team working on this fund has been reduced due to the resignation of our former Head of Credit. We have recruited further fund management personnel and credit analysts to replace and make a considerable enhancement to our capability within the team.

Market backdrop

Highly volatile pricing of all assets across the risk spectrum and intermittent volatility spurts have been facets of all fixed income sectors during the reporting period. All fixed income products fell violently from March onwards and this was particularly severe for higher yielding assets although even US Treasury bonds were affected by a general malaise and also suffered reduction in capital value. Since the introduction of emergency market support packages from central banks such as the US Federal Reserve (Fed), European Central Bank and Bank of England these markets have settled but the economic picture remains uncertain.

As developed markets in the US, UK and Europe begin to ease lockdown measures, market commentators were expectant of a so-called V shaped recovery as businesses begin to emerge from their forced hibernation. Our appraisal is more circumspect and despite spread tightening in recent weeks for investment grade credits, as companies shore up their balance sheets with additional borrowing, we are particularly focussed on data relating to SME performance and securitised products such as CLO's and lower sub investment grade markets where the greatest pain has been observed. We expect coupon obligations to be put under pressure and forbearance to be the watch word for the next 9-12 months.

SME business confidence has fallen sharply and lower turnover due to Covid-19 has caused severe cash-flow difficulties for many businesses, increasing demand for working capital finance. This has been coupled with a sharp increase in demand for loans and uptake of government backed schemes encouraging commercial banks to lend into the sector. Easing of credit criteria for loans by these banks, has a second derivative effect of weakening capital adequacy and it is our expectation that once market conditions begin to normalise, lending patterns will revert to more conventional levels, allowing alternative lenders to pick up the baton once again.

The speed of recovery is unclear at the present time. By way of stark illustration, unemployment in the US increased by 14 million in six weeks at the height of the Covid-19 emergency whereas the total number of those losing jobs between June 2008 and June 2009 was 3.5 million and it took four years for employment to return to pre-recession levels. Reversal of lost jobs takes time for an economy to absorb and so we expect this to impact consumption and consumer confidence. For lenders and borrowers alike, the safest route to normalisation is to keep sustainable business alive with support and forbearance including maturity extensions and interest or amortisation "holidays", so that they can resume trading and servicing their loans as rapidly as possible; an approach we have adopted across our portfolios since March 2020.

For equity investors, the reduction in dividend and share buy-back programmes across the equity market landscape, should, in our opinion, focus attention on regular coupon paying fixed income strategies. These are contractual and any missed coupons are rolled up, unlike missed dividend payments. Once the current and immediate crisis subsides, we believe regular income will be a highly valued commodity.

Investment Manager's Report (continued)

Portfolio

There are eleven (2019: 13) direct loans in the portfolio with an average of £3.1 million (2019: £2.6 million) deployed per loan, at an average rate of 11.1% (2019: 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 defaults in this portion of the portfolio underwritten by the portfolio management team although we should caveat this statement with a warning that as the pandemic continues we may see cause for future impairment. At present and where required we have provided covenant and amortisation relief or maturity extensions to our borrowers. To date, managements ongoing monitoring has not identified write downs on these loans and we will continue to monitor for this risk as the market continues to grapple with the uncertainty that the Covid-19 pandemic and Brexit represents to this segment.

As reported last year, we have changed the way in which we categorise the legacy portfolio. With £9.8 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 (further details relating to these investments is provided later in the report). The total number of loans via third parties have been reduced from 213 to 17 (April 2017 to June 2020) with a small number of loans amortising down each month. As mentioned above, peer to peer lending now represents only 0.5% of the portfolio with the majority of the remaining exposure impaired 100% as at the end of the reporting period.

No leverage has been used throughout the reporting period. Given the nature of the investments and the less predictable nature of repayments from legacy positions, we would continue to see this as a challenge if reinvesting loan capital, however the Company ceased new investments as at January 2020 ahead of the continuation vote to allow for cash to build. Despite this, we have paid close attention to delivering a covered monthly dividend and although dividend cover has fluctuated over the year as we have impaired platform loans and ceased accruing income, we have enough cash availability to maintain a 7.00p per share dividend for the rest of the calendar year. The Board intends to move to making quarterly dividend payments and ad-hoc special dividends, when appropriate, during the course of the managed wind-down process so that the Company is able to return available cash as soon as reasonably practicable.

Apart from the concentration limit for film financing that had received prior approval from the Board, there were no breaches of investment guidelines 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 and margin requirements have increased. The Board has asked for a review of FX hedging and it may decide to remove FX hedges as the portfolio is wound down. If the hedges are removed we will update our FX exposures regularly in the factsheets.

As the portfolio is now in wind-down, we have been focussed on urging our third-party borrowers to repay debt and expect to begin return of capital to shareholders early in the next reporting period. We shall be encouraging them and assisting them to refinance early so we may return capital to our shareholders. In line with this plan, post 30 June, the Board were able to approve an increased dividend payment of 3.5p in July.

The investment portfolio as at 30 June 2020 exhibited the following characteristics:

	30 June 2020[1]
Largest Loan	£9,995,000
Weighted Average Remaining Term ("WART")	2.9 years
Investment Yield Range	8.0%-13.0%
Weighted Average Portfolio Yield	10.0%

[1] Analysis based on post-impairment figures.

The largest individual investments have the following characteristics:

Borrower Industry	*Total balance outstanding (including accrued interest) £*	*% of Net Asset Value*	*Remaining Term (years)*
Wholesale Portfolio	£9,995,000	22.0%	1.3 years
UK Diversified Portfolio	£7,405,035	16.3%	5.7 years
Healthcare	£4,853,641	10.7%	4.5 years
European Diversified Portfolio	£4,316,605	9.5%	3.2 years
Media	£3,044,113	6.7%	2.0 years

Investment Manager's Report (continued)

Portfolio Activity

We sold two direct loans during the reporting period:

- Medical services provider in UK – as reported last year, the business was in a sale process and we had covenants requiring the loan to be repaid in the event of a change of control with penalty costs applied. The company requested a roll over of the debt into the new entity but we were uncomfortable with the balance sheet and domicile in Northern Cyprus. So, after a period of intense negotiation, we secured full repayment.
- 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. However, despite having equity support from infrastructure investors, the level of debt held by the group became significant and so we made plans to sell the loan and this was achieved in December 2019, leading to a gain for the Company of c.£140k and an IRR upon exit of 12.7%.

Direct Loans

Loan Summary Table:

Borrower	*Original Loan Amount £*	*Principal Balance Outstanding at 30 June 2020 £*	*ECL provision at 30 June 2020 £*	*Carrying Value of Loans at Amortised Cost[1] at 30 June 2020 £*	*Amortisation/ Bullet repayment/ other*	*Term remaining (years)*	*Asset Type*	*Currency*	*Yield*
Borrower 1	£10,000,000	£10,000,000	£5,000	£9,995,000	Interest only during availability period, then amortisation	1.3 years	Wholesale Lending	GBP	10%
Borrower 2	£4,838,319	£4,838,319	£2,419	£4,835,900	Interest only for 12 months, then amortisation	4.5 years	Medical Services	USD	12%
Borrower 3	£4,137,699	£4,137,699	£2,069	£4,135,630	Bullet repayment	3.2 years	SME and Leasing Fund	EUR	Variable
Borrower 4	£2,458,950	£3,045,636	£1,523	£3,044,113	Cash sweep	2.0 years	Film Production Financing	GBP	12%
Borrower 5	£2,504,341	£2,796,007	£1,398	£2,794,609	Cash sweep	2.9 years	Film Production Financing	GBP	11%
Borrower 6	£2,556,790	£2,590,731	£1,295	£2,589,435	Cash sweep	2.8 years	Film Production Financing	GBP	12%
Borrower 7	£2,314,769	£2,509,046	£1,255	£2,507,791	Cash sweep	2.9 years	Film Production Financing	GBP	11%
Borrower 8	£1,703,435	£2,070,283	£1,035	£2,069,248	Cash sweep	2.4 years	Film Production Financing	USD	12%
Borrower 9	£1,500,000	£1,500,000	£750	£1,499,250	Interest only during availability period, then amortisation	1.0 year	Leasing Group	GBP	9.5%

Investment Manager's Report (continued)

Direct Loans *(continued)*

Loan Summary Table *(continued)*:

Borrower	*Original Loan Amount £*	*Principal Balance Outstanding at 30 June 2020 £*	*ECL provision at 30 June 2020 £*	*Carrying Value of Loans at Amortised Cost[1] at 30 June 2020 £*	*Amortisation/ Bullet repayment/ other*	*Term remaining (years)*	*Asset Type*	*Currency*	*Yield*
Borrower 10	£1,624,248	£502,945	£251	£502,693	Cash sweep	1.2 years	Film Production Financing	GBP	12%
Borrower 11	£700,000	£428,138	£215	£427,923	Amortisation	2.5 years	Laser and LED Manufacturer	GBP	10%
Direct Loans Total		**£34,418,804**	**£17,210**	**£34,401,593**					

[1] The carrying values of loans at amortised cost disclosed in the table above do not include capitalised transaction fees, which totalled £90,000 at 30 June 2020.

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.

SME loan company (Borrower 1) – 22.0% of NAV

This is the largest individual facility provided by the Company and has been in place since May 2017. This is a long established lender to the SME market. The loan is interest only and upon maturity, the debt amortises over nine months although a longer repayment plan would need to be negotiated given the Covid-19 impact. It is secured by receivables from a pool of diversified loans to small businesses which is advanced at 90% against the security pool and borrower director guarantees together with underlying security. Each underlying loan is rated to a four stage system with our collateral only acceptable for the highest category. If a loan slips into a lower category, there is a requirement for it to be replaced by another better performing credit. We receive a report from the company's auditors on a monthly basis that provides detail on the performance and the entire loan pool.

Loans within the portfolio have been affected at the start of the Covid-19 pandemic but management have reported that things have steadily started to improve with June at breakeven in terms of net new advances. All loans are accompanied by a personal guarantee and any amount over £50,000 has to be secured by a lien on property. They have also reported that they had a reasonably small exposure to the retail sector which had been the hardest hit.

We have allowed covenant breaches regarding the collateralised pool to 95% since April and we have relaxed the terms of the ratings allowed within the pool whilst the period of economic uncertainty remains and are comfortable that the borrower is monitoring performance adequately, all loans were considered "green" in terms of performance and overall loan to value at 93% as at the end June, all interest payments have continued to be paid on time. The company has now relaunched their lending activity in Q3 due to an increase in demand from performing SME.

US healthcare services company (Borrower 2) – 10.7% of NAV

This credit replaced the loan to a remote operating vehicle business in December which was sold over concerns regarding the overall indebtedness of the company. This loan, by comparison, offered far greater comfort by way of being guaranteed by its insurance company owner and the seniority of the debt in the overall stack. Faced with the uncomfortable choice of our first default on a direct loan and reduction in dividend cover, we chose to invest. Subsequently, the remote vehicle business had to be restructured during Q1/Q2, 2020 which would have led to impairment for the Company.

This company specialises in ancillary medical services to a number of hospitals in the American Midwest including optometry, audiology, dentistry and podiatry. Security is provided by debenture over all assets other than accounts receivable (although considered to be of low value), pledge over equity that may not be diluted and a parental guarantee over all scheduled interest and principal repayments. This last element being the most important given the weaker balance sheet of the underlying business.

This direct loan was considered of greatest risk of default when the pandemic started given the nature of business and so we have monitored interest receivables very tightly. We are pleased to report that all interest payments have been made on time.

Investment Manager's Report (continued)

Direct Loans *(continued)*

Irish SME and leasing fund investment (Borrower 3) – 9.5% of NAV

This portfolio of some 26 loans has continued to perform and in some cases underlying credits have seen an increase in activity and therefore performance. The majority of the loans are focused on technology companies specialising in online educational software, online publishing and PPE manufacture which has seen threefold increases in sales since the beginning of the year. This has meant a higher than expected distribution to the Company as at the end of the reporting period. One loan extended to a cosmetic dental service representing 1.9% of their portfolio, was due to be sold, this process has been put on hold and the credit expectation reduced. The manager considered this to be a temporary position and expects to recoup the value of the loan.

Media financing (Borrowers 4 through to 8 and Borrower 10) – 29.7% of NAV

Over the course of the last three years, SIF has funded 8 films, two of which have been fully repaid and loan obligations met in full. The remaining six are at various stages of filming and distribution.

At the beginning of the pandemic, as investment adviser to the lender we recognised the risk that tax credits and distribution sales may be delayed and noted the cancellation of a number of film festivals when sales activity is at its most productive. We expected the shortfall in airline and cinema sales to be somewhat compensated by online content providers such as Sky and Netflix.

We duly offered three months extension to the timetables originally set for these projects and monitored the progress of each films. As at July, we have further extended and fully documented the maturity dates for these loans by 12 months to allow for a longer period of repayment.

All six loans are individual facilities and are ring-fenced as individual risks. However, to mitigate the volatility of performance on individual projects, we had allowed for a waterfall structure to allow for profit share from higher performing assets to contribute to the overall repayment of the whole portfolio. It is the managers view that this mechanism will allow for all loans to be repaid in full over the extended period granted. As at year end, we have not allowed any further loss provision and will closely monitor for risk of lifetime credit loss over the coming months as we attempt to emerge into more normal conditions.

UK leasing company (Borrower 9) – 3.3% of NAV

This loan has been underwritten since July 2017 on a rolling twelve month basis. It is a working capital facility to be used to warehouse deals financed by block facilities already in place. The loan is supported by a debenture and the company provides quarterly management accounts and full year audited financials. The underlying portfolio comprises of a basket of loans split between two types of lending; 85% asset finance/leases with a typical deal size of £15,000 and 15% professional loans to white collar industry professionals supported by personal guarantee.

Updates from the borrower through Q2 highlighted the increased number of requests for forbearance. Overall to the end of May, they reported 25% delinquencies versus a comparison of 9% during the credit crunch. However, 75% of all loans were being paid on time and in full and they reported that they did not expect the position to be terminal and reporting since the end of June 2020 has demonstrated a significant improvement in rental payments to 102%, providing enough comfort for the loan to remain unimpaired. Their team has been working well with the underlying borrowers to achieve furlough for their staff and to apply for CBIL loans. As the pandemic lockdown restrictions have loosened, many of those businesses that asked for forbearance have been able to resume the servicing of their debt, and the borrower have set up amended payment plans to recoup outstanding balances. This has led to payments for July and August exceeding expected amounts. Even with this level of delinquency to the end of June, cash flow analysis shows that they remain cash positive and have enough financial headroom until Autumn 2020. The company has not needed to access their block financing lines over the period.

LED manufacturer in Ireland (Borrower 11) – 0.9% of NAV

This is a secured term loan that has been in place since May 2017 and is secured by a guarantee from the parent company, a debenture over the borrower and a charge over equipment purchased via Capex portion of the facility.

Their business has operated on a business as usual basis throughout the pandemic. They have changed some working practices to allow for split shifts and those who are able to work from home are doing so. The supply chain is working and customers continue to operate.

We had intended to extend a further €500,000 loan facility to the company but withdrew from the commitment at the start of the pandemic in March 2020. Since then, we have granted a three, then six month amortisation deferral with an extension to the original loan. All interest has been received during this time and the management of the company have kept us abreast of developments.

Investment Manager's Report (continued)

Legacy portfolio

Borrower	Original Loan Amount £	Principal Balance Outstanding at 30 June 2020 £	ECL provision at 30 June 2020 £	Loan Carrying Value at Amortised Cost at 30 June 2020 £	Currency	Yield
Borrower 12	£14,800,664	£7,450,655	£1,059,756	£6,390,899	GBP	Variable
Borrower 13	£1,000,000	£1,000,000	£1,000	£999,000	GBP	17.0%
Borrower 14	£524,151	£524,151	£524	£523,627	USD	8.0%
Borrower 15	£500,000	£415,714	£415,714	£0	GBP	–
Borrower 16	£1,565,297	£508,019	£279,822	£228,197	GBP	9.8%
Borrower 17	£563,270	£345,239	£345,239	£0	GBP	–
Borrower 18	£2,317,199	£2,317,199	£2,317,199	£0	USD	–
Legacy Loans Total		**£12,560,977**	**£4,419,254**	**£8,141,723**		

Co-Investments

In line with our reclassification adopted in the last reporting period we continue to separate pure peer to peer, technology platform based lending and three investments that are characterised by professional co-investment alongside other professional investors. After significant corporate change for all three of these investments, we provide the following narrative:

UK venture debt (Borrower 12) – 16.3% of NAV: after the turbulence of two of the three principals leaving the company and triggering a clause in the Loan Note agreement that allowed us to take closer control of the process of managing the portfolio, the business has stabilised and made very good progress in winding down the portfolio. As the portfolio runs off, we have received £1.6 million cash shortly after year end leaving a balance of £5.8 million.

The largest position in the portfolio, a broadband company, has been restructured and is currently impaired by 59% representing 2.1% of the Company's NAV. However, the reorganisation of the business has progressed well and a new CEO employed. Their order book has increased and they have been able to operate throughout the current pandemic crisis. We therefore expect some improvement in recovery.

UK offshore platform (Borrower 13) – 3.3% of NAV

One loan remains in the portfolio and has been in place since early 2017 and is a real estate linked loan to a developer on the island of Gibraltar. It is senior in a stack of other loans underwritten by the platform itself. After two years of careful monitoring and pressing for repayment, we have now been given notification that this will be repaid in full with accrued and penalty interest. Throughout the period of delinquency, we had not impaired the loan as to do so would have encouraged the borrower to urge us to take a haircut on final settlement. Our senior position ahead of the platform lender also gave us comfort that the loan would be repaid in full but this has required patience and perseverance.

US business promissory note (Borrower 14) – 1.4% of NAV

This loan is a working capital facility via a promissory note. It has a maturity to July 2020 and had been due to be repaid early as the business was due to be sold to a larger lending business based in the Netherlands. This transaction failed in Q4 2019 and so an outstanding loan is to be repaid.

The company specialises in Microsoft hardware and software sales to SMEs via a global franchise. It has recently commenced a new product line with X-Box to commence in Q4 2020. The borrower has been unable to settle the loan and so we have agreed an extension by 6 months to January 2021 to allow for the business to settle after the initial pandemic and for the new business line to start over the Q4 holiday season.

Investment Manager's Report (continued)

Co-Investments *(continued)*

Small company bond platform (Borrower 15) – 0.0% of NAV

All three loans outstanding from this platform were repaid during the reporting period including a car leasing business and a school, both of which repaid in full. A third investment with a technology company was settled at 50% of its net value (realising a loss of £402,000) after it delisted from AIM and this is reflected in the financial statements. The only outstanding debt from this platform is a recruitment business that had undergone a protracted recovery process through the courts. In Q1 2020, we took the decision to fully impair the loan due to slow progress and the increased risk that fees and expenses would erode any repayment to the Company.

Peer to Peer

During the reporting period, the Company has been able to reduce the number of peer to peer loans in the portfolio from 40 to 14.

UK peer to peer loan platform (Borrower 16) – 0.5% of NAV

The platform is slowly amortising down and represents 0.5% of the overall portfolio. Two of the largest loans are 50% and 80% impaired respectively and represent 90.8% of the total outstanding balance. Continuous requests for information and insistence that these loans should be repaid have led to some progress in regard to a wind turbine loan. So, despite these positions being aged, we still press for repayment. Other loans that had already been 100% impaired, matured and are reflected as realised losses of £223,000 in the financial report and accounts.

Spanish peer to peer loan platform (Borrower 17) – 0.0% of NAV

We have assigned zero probability of any further collections on the remaining 7 loans within the portfolio. We continued to push for some return from these loans but after receiving a number of formal liquidation confirmations, we concluded that there was very little probability of recouping any further capital.

US peer to peer business (Borrower 18) – 0.0% of NAV

The final outstanding balance of this position has been fully impaired and we have assigned no further ability to recoup funds from the platform. At the beginning of the reporting period, we had impaired 25% of the total outstanding loan and taken the decision to try and assume collections with a management agreement. It took longer than expected to arrange the legal documentation to gain access to files and we had believed it reasonable to expect some success but upon review over the course of the year, we came to the conclusion that there was little to gain from pursuing the outstanding balances and so by end Q1 2020 and the start of the Covid-19 led difficulties, we impaired the remaining balance.

Outlook

The reporting period has not been without its challenges due to external economic pressures of Brexit and then the onset of the Covid-19 pandemic.

All things considered, the loan book has held up reasonably well and we have made reasonable, albeit slower progress with the ongoing cleanup of peer to peer exposures. However, it has been disappointing that we were not able to recoup more capital from the US and European positions and with the benefit of hindsight, our original expectation was too optimistic.

Given the ongoing complexity of Covid-19 impact on the wider economy, the probability of the impact was a lot lower but now there is increased likelihood of deteriorating prospects in the medium term. However, on the balance of probabilities it is likely that our direct loan underwriting representing 76% of the portfolio can ultimately repay at full value.

The Company is now in wind-down and we are working to deliver the Company's new investment policy. Meanwhile, we shall monitor and manage the assets within the portfolio as carefully as possible and urge early repayment by borrowers if the occasion arises. All of the loans in the portfolio require care and diligence, each borrower has specific needs and have to be carefully monitored and indeed, on some occasions, helped through difficult periods. If they are not managed with this level of due care and diligence, there is a risk that the credit outlook for these loans may deteriorate. It is as much about the manager as the borrower in these circumstances.

We would like to thank Shareholders for their support and look forward to sharing updates on the progress made on wind down in future months.

Dawn Kendall
Portfolio Manager
KKV Investment Management Ltd
8 October 2020

Company Analytics

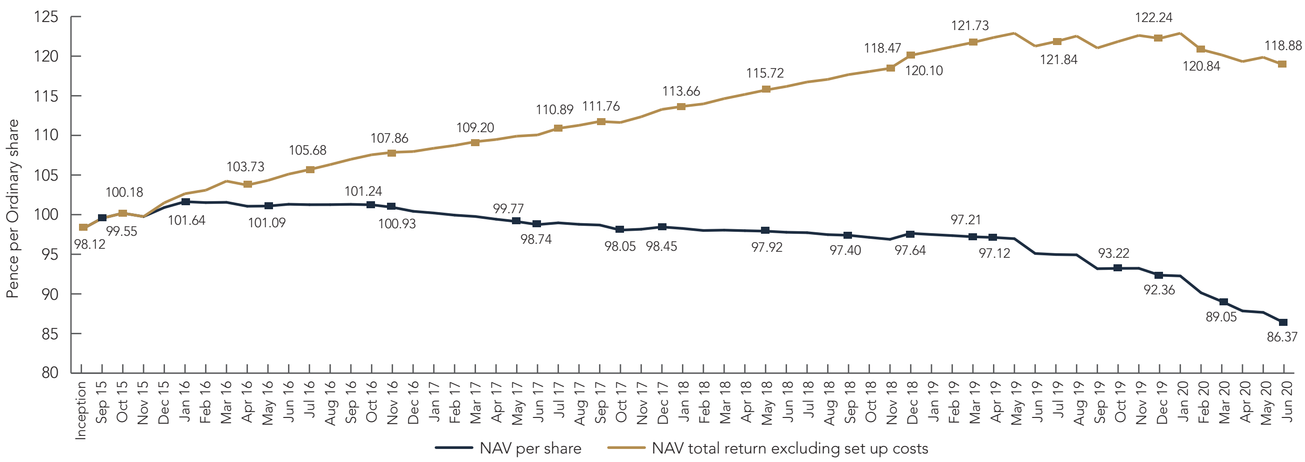
as at 30 June 2020

Performance and dividend history

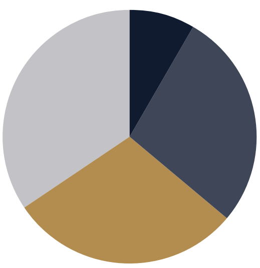
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Cumulative Total from 2017
NAV total return, including income*	2017	0.38%	0.33%	0.43%	0.26%	0.38%	0.14%	0.76%	0.34%	0.44%	-0.12%	0.64%	0.83%	**9.72%**
	2018	0.34%	0.27%	0.58%	0.47%	0.48%	0.39%	0.48%	0.28%	0.52%	0.33%	0.34%	1.38%	
	2019	0.44%	0.46%	0.44%	0.51%	0.44%	-1.32%	0.47%	0.57%	-1.23%	0.67%	0.63%	-0.31%	
	2020	0.53%	-1.67%	-0.56%	-0.70%	0.45%	-0.81%							
Dividend*	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	**23.78p**
	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	
	2019	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	
	2020	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%	**-18.66%**
	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%	
	2019	-0.27%	0.00%	-0.27%	-0.27%	0.55%	0.00%	0.27%	-0.54%	0.00%	-2.45%	-2.51%	-2.29%	
	2020	0.00%	-1.17%	-12.17%	5.07%	-1.93%	0.33%							

*Per Ordinary Share **Source Bloomberg

NAV/NAV Total Return

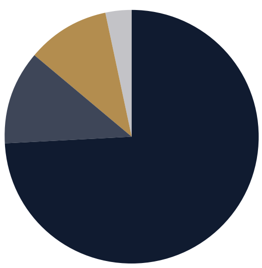


Portfolio Exposure by Maturity



- 0 to 6 months, 8.6%
- 6 months to 18 months, 27.7%
- 18 months to 3 years, 29.4%
- >3 years, 34.3%

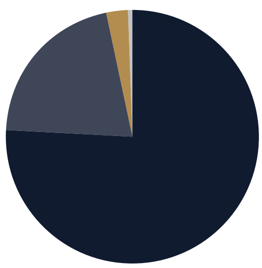
Portfolio Exposure by Geography



- UK, 74.3%
- US, 12.0%
- Europe, 10.4%
- Offshore Britain, 3.3%

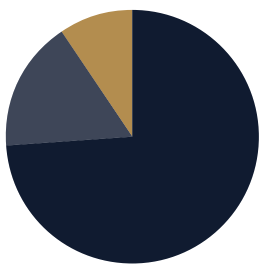
*Offshore Britain: Channel Islands, Gibraltar & Isle of Man

Portfolio Exposure by Type



- Direct loans (KKV originated), 75.9%
- Co-invested and solely owned private debt, 21.0%
- Cash, 2.6%
- Peer to peer/crowdfunded, 0.5%

Portfolio Exposure by Currency



- GBP, 74.0%
- USD, 16.6%
- EUR, 9.4%

Principal Risks and Uncertainties

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.

Following the UK's exit from the EU on 31 January 2020, and until trade agreements are signed, there may be some uncertainty in UK and European markets as they adjust to the new relationship between the UK and the EU and the rest of the world. Although the exact impact of Brexit is not known, the Board believes that the Company is well placed to deal with future impacts from it.

Covid-19

The Covid-19 outbreak is a risk to the global economy. Details of the macroeconomic impact, as it may affect the Company, are provided in the "Market Backdrop" section of the Investment Manager's Report. The Investment Manager and Administrator invoked their business continuity plans to help ensure the safety and well-being of their staff thereby retaining the ability to maintain business operations. These actions helped to ensure business resilience.

The situation is changing so rapidly that the full impact cannot yet be understood, but future cashflows and valuations are more uncertain at the current time, and may be more volatile than in recent years. Indeed, the level of estimation uncertainty and judgement for the calculation of expected credit losses has increased as a result of the economic effects of the Covid-19 outbreak. However, the impact of defaults that might occur in future under different economic scenarios has been reflected in various models to enable the Board to evaluate the Company's viability, and the Directors believe that the Company is well placed to survive the impact of the Covid-19 outbreak, thereby enabling the Company to realise its assets in an orderly manner.

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.

Following the change of investment objective on 17 September 2020, the Company ceased to make any new investments or to undertake capital expenditure except where, in the opinion of both the Board and the Investment Manager (or, where relevant, the Investment Manager's successors):

- the investment is a follow-on investment made in connection with an existing asset in order to comply with the Company's pre-existing obligations; or
- failure to make the follow-on investment may result in a breach of contract or applicable law or regulation by the Company; or
- the investment is considered necessary to protect or enhance the value of any existing investments or to facilitate orderly disposals.

The impact of the Covid-19 outbreak on general credit risk is provided in the Investment Manager's Report.

Principal Risks and Uncertainties (continued)

Credit risk *(continued)*
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. This diversification may reduce as assets are realised, but is an acceptable, and to some extent unavoidable, risk associated with the realisation process.

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 effectively monitor 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.

Reputational risk
Any adverse impact on the Company's reputation would likely result in a fall in its share price, thereby adversely affecting Shareholders.

Details of the premium/discount of the share price to NAV are disclosed on page 20.

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 (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

When making investment decisions, the Investment Manager has not, historically, considered the impact that an entity in which the Company invests may have on the community. However, whilst the Board believes that all companies have a duty to consider their impact on the community and the environment, 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.

Going forward, the Investment Manager is committed to achieving the best possible risk-adjusted returns through integrating Environmental, Social and Governance ("ESG") considerations into its core investment analysis and decision making process. The Investment Manager recognises the value in considering ESG risks and has adopted the following ESG approach in conducting its business:

› Taking into account the non-financial performance of target companies, specifically related to governance, social and environmental policy.

› Adopting responsible and ethical approach to governance including:

  – Remuneration of senior management and a policy on bonuses that is compliant with international standards;
  – Implementation of compliance policies and procedures and on-going monitoring of the firm's systems and controls;
  – Implementation of risk controls throughout the business; and
  – Consideration of our ethical obligations in all business conduct (anti money laundering, anti-corruption, reputational due diligence).

› Encouraging a human resource policy which values and respects all staff members through:

  – Objective criteria to measure performance and competencies;
  – Support programs requiring senior management involvement in all staff members career progression; and
  – Equality across all staff irrespective of role, gender, race, age, religious belief or sexual orientation.

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 36.

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 2020 (2019: £3,684,000 (7.00p per Ordinary Share)), being 228.5% (2019: 128.9%) of distributable income 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 30 June 2020, 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 page 3 and note 23.

Premium/discount of share price to NAV

Prior to the Continuation Vote, in the event that the Ordinary Shares had 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 were required to convene a general meeting to propose a continuation resolution.

Although this requirement is no longer applicable, the Board understand the importance of minimising the discount to NAV at which the Company's Ordinary Shares trade and the Board regularly monitors the premium/discount of the price of the Ordinary Shares to the NAV per share. During the year, the Company traded at an average discount to NAV of 7.74%. In normal market conditions, stabilisation of dividend cover would have resulted in a narrowing of discount to NAV. However, sector volatility and some sales of shares by investors created a stock overhang during most of the reporting period, and at 30 June 2020 the shares were trading at 76.50p, an 11.4% discount to NAV (2019: 92.00p, a 3.26% discount to NAV). However, FinnCap, the Company's corporate broker, has maintained a good job of matching sales to purchases and retail interest in the stock has been ongoing.

Capital returned to Shareholders

Following the change in investment objective on 17 September 2020, the Directors consider it important to measure the amount of capital returned to Shareholders. In the six days since 17 September 2020, no capital has been returned to Shareholders. However, on 26 August 2020, the Company announced a dividend of 3.50 pence per Ordinary Share with a payment date of 25 September 2020.

This was not a KPI during the year ended 30 June 2020.

David Stevenson
Chairman
8 October 2020

Promoting the Success of the Company

The following disclosure outlines how the Directors have had regard to the matters set out in Section 172(1)(a) to (f) of the Companies Act 2006.

The Board considers the needs of a number of stakeholders when considering the long-term future of the Company. The key stakeholders with which the Board has liaised during the year ended 30 June 2020 were:

- Shareholders; and
- Key service providers.

Shareholders

The Company's significant Shareholders at the year end can be found in the Directors' Report on page 25.

When making principal decisions the Board consider it imperative to analyse the views of the Company's investors to ensure that its decisions are aligned with the wishes of Shareholders and that the Company can achieve its Investment Policy (as disclosed on page 4). The key performance indicators (see page 20) have been considered on an ongoing basis as part of the Board's decision making process.

Details of how the Directors communicate with Shareholders can be found in the Corporate Governance Report, on page 30.

Other than the routine engagement with investors regarding strategy and performance, the Company's continuation was discussed with investors. A continuation vote was held on 19 June 2020 that, in line with the Directors' recommendation, did not pass. A further general meeting of the Company was held on 17 September 2020 at which a special resolution approved the managed wind-down of the Company and the adoption of the new investment policy of the Company.

Key service providers

Details of the Company's key service providers can be found in the Directors' Report on page 25.

The key service providers are fundamental to the Company's ability to continue in the same state as any changes could disrupt the expected timeliness of information provided to the markets. In turn, this would be likely to have a detrimental impact on the Company's reputation.

The Board has continuous access to the Company's key service providers and has open two-way communication with them. Key aspects of discussion with these service providers, other than those regarding Company performance and strategy, were in respect of fees payable to these providers.

Following these discussions, the Investment Manager's fees were amended post year end as disclosed in note 7.

David Stevenson
Chairman
8 October 2020

Board of Directors

David Stevenson *(Non-executive Chairman and Chair of the Management Engagement Committee)*
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 Director and Chair of the Audit and Valuation Committee and Chair of the Remuneration and Nominations Committee)*
Gaynor is a director and chair of the audit committee of Lowland Investment Company plc, a director and chair of the audit committee of Asia Dragon Trust plc (from 3 July 2019) and a director of the Foresight Venture Capital Trust plc (from 10 September 2020). She is a director and chairs the board of The Wave Group Limited, a private company, based in Bristol building inland surfing venues and director of a number of other private companies. 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.

Brett Miller *(Non-executive Director) – appointed 8 July 2020*
Brett presently serves as a director of the following publicly listed companies: KKV Secured Loan Fund Limited, RDL Realisation plc and Manchester & London Investment Trust plc. He is also a director of a number of unlisted and/or private companies.

Brett was formerly executive director at Damille Investments Ltd and Damille Investments II Ltd, both four year closed end funds listed on the specialist funds market of the LSE.

Brett has wide ranging closed end fund and investment trust/investment company experience both as an investor and in managing or serving on boards of closed ended funds. He has been involved (as executive and non-executive director) in the management and in some cases, the running off and realization, of numerous LSE and AIM listed closed end funds across a wide range of asset classes including (but not limited to) The Local Shopping REIT plc, China Growth Opportunities Fund, Loudwater Trust plc, Rapid Realisations Fund Limited, Ranger Direct Lending Fund plc, HWSI Realisation Fund Limited and EIH plc. He has considerable expertise in restructuring and re-aligning management incentives and aligning shareholder and managerial interests for both ongoing and realisation situations.

Ken Hillen – resigned as a Non-executive Director and Chairman on 26 May 2020

Directors' Report

The Directors of the Company are pleased to present their report and audited Financial Statements for the year ended 30 June 2020.

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.

On 17 September 2020, Shareholders voted to change the Company's investment policy to carry out an orderly realisation of the Company's portfolio of assets and distribution of cash to Shareholders.

Change of Investment Manager and Alternative Investment Fund Manager ("AIFM")

On 5 June 2020, the Company novated the contract to manage the portfolio to KKV Investment Management Limited, following the management team into their new entity from SQN Asset Management Limited. In addition, on 5 June 2020, Kvika Securities Ltd ("KSL") was appointed AIFM, replacing SQN Capital Management, LLC ("SQN US"), which acted as AIFM during the year until 5 June 2020.

Change of name

On 18 July 2020, the Company changed its name from SQN Secured Income Fund plc to Secured Income Fund plc.

Results and Dividends

The results of the Company for the year are shown on page 42.

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, although the Board intends to move to making quarterly dividends for the foreseeable future. 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 2020 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 2020, 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 £3,684,000 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 2020 and 30 July 2020, had not been provided for at 30 June 2020 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 2020, the Company had net assets of £45,532,000 (2019: £50,129,000).

Going Concern and Viability Statement

On 19 June 2020, the Company held the Continuation Vote that, in line with the Directors' recommendation, did not pass. This vote was required under the Articles as the Company did not have a Net Asset Value of at least £250 million as at 31 December 2019. As this vote did not pass, the Directors (as required under the Articles) convened a further general meeting of the Company on 17 September 2020 at which Shareholders approved the managed wind-down of the Company.

Directors' Report (continued)

Going Concern and Viability Statement *(continued)*
Given the Company's investment policy to carry out an orderly realisation of the Company's portfolio of assets and distribution of cash to Shareholders, the financial statements have been prepared on a non-going concern basis. This has had no significant impact on the financial statements as the loans are included net of their expected credit loss provision ("ECL") and are expected to be realised in an orderly manner, and the estimated costs of winding up the Company are immaterial.

The Directors have assessed the prospects of the Company over the three year period to 30 September 2023. 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.

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 operation; realise the Company's assets in an orderly manner; and meet its liabilities as they fall due, over the three year period to 30 September 2023, if necessary and if all assets have not been returned to Shareholders by then.

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. 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.

From 5 June 2020, KSL, as the AIFM under the Alternative Investment Fund Managers Directive ("AIFMD"), is responsible for operating the Company's internal system of control and for initially reviewing its effectiveness. Prior to 5 June 2020, SQN US was the Company's AIFM. 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.

Directors' Report (continued)

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 Company's financial risk management objectives, policies and principal risks faced by the Company are outlined on pages 17 and 18.

Material Contracts

The Company's material contracts are with:

- KKV Investment Management Ltd, which acts as Investment Manager;
- Kvika Securities Ltd, which acts as AIFM;
- FinnCap Limited, which acts as 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".

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 2020, 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
New City Investment Managers	3,208,000	6.09
CG Asset Management	2,662,103	5.06
AXA Investment Managers	2,500,000	4.75
Pictet Asset Management	2,500,000	4.75
Philip J Milton & Company	2,462,983	4.68
Staude Capital	2,206,000	4.19
Jupiter Asset Management	2,140,000	4.06
Canaccord Genuity Wealth Management	1,582,905	3.01

There have been no changes to the above holdings between 30 June 2020 and the date of this report.

Directors' Report (continued)

Letters of appointment and election of Directors

Biographies of the Directors are set out on page 22 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:

David Stevenson (Chairman)

Gaynor Coley

Brett Miller (appointed 8 July 2020)

Ken Hillen (resigned 26 May 2020)

In addition, Douglas Armstrong of Dickson Minto (the Company's legal adviser) was appointed to act as an alternate Director of the Company for the duration of the Company's General Meeting held on 19 June 2020.

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 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 2020 and the date of signing this report, the Directors' interests in the Ordinary Shares of the Company were as follows:

	30 June 2020	*8 October 2020*
David Stevenson	20,256	20,256
Gaynor Coley	2,092	2,139

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.

Other than the change in Gaynor Coley's shareholding due to reinvestment of dividends, as disclosed above, there were no changes in the interests of Directors between 30 June 2020 and the date of this report.

Political donations

The Company made no political donations during the year to organisations either within or outside of the EU (2019: nil).

Corporate Governance

The Corporate Governance Report, which forms part of the Directors' Report, can be found on pages 28 to 30.

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

David Stevenson
Chairman
8 October 2020

Gaynor Coley
Director
8 October 2020

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 year. Under that law, the Directors have elected to prepare the Financial Statements of the Company 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. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 loss 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 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.

David Stevenson
Chairman
8 October 2020

Gaynor Coley
Director
8 October 2020

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 2018 (the "Code"). The Directors have considered the principles and recommendations of the 2019 AIC Code of Corporate Governance (the "AIC Code"), which is available at www.theaic.co.uk. The AIC Code 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 Company is committed to high standards of corporate governance and has sought to follow industry best practice with respect to those aspects of the AIC Code that are considered by the Board to be practical and appropriate for an organisation of its size and nature and which, 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.

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

Senior Independent Director – The Board has not formally appointed a senior independent director as required by Provision 6.2.14 of the AIC Code. The Board deems this to be unnecessary as the majority of the Directors are independent, including the Chairman of the Board.

Non-independent Director – On 16 September 2020, Brett Miller was appointed to the Board of KKV Secured Loan Fund Limited, which is also managed by the Investment Manager, so from that date, as he serves as a director on two entities managed by the Investment Manager, he is no longer considered to be independent. As Mr Miller has not been independent since 16 September 2020, he is not a member of the Management Engagement Committee. However, the Board has agreed that the Audit and Valuation Committee and Remuneration and Nominations Committee benefit from Mr Miller's valuable contributions, and it does not expect his lack of independence to negatively impact his position in the future. Therefore, although this is not in compliance with Provision 8.2.29 or Provision 9.2.37 of the AIC Code, Mr Miller continues to be a member of the Audit and Valuation Committee and Remuneration and Nominations Committee.

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 Directors are members of the Audit and Valuation Committee and Remuneration and Nominations Committee. However, as (from 16 September 2020) Brett Miller has not been considered to be independent, he is not a member of the Management Engagement Committee.

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

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.

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)

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.

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 both of the independent Directors of the Company, meets at least once a year. David Stevenson is the chairman of the Management Engagement Committee. Prior to his resignation as a Director on 26 May 2020, Ken Hillen 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 Gaynor Coley, 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. Prior to 8 July 2020, David Stevenson was the chairman of the Remuneration and Nominations Committee.

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 ten Board meetings, eight Committee meetings, five Audit and Valuation Committee meetings, one Management Engagement Committee meeting and two 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*
David Stevenson	9/10	n/a	4/5	1/1	2/2
Gaynor Coley	10/10	8/8	5/5	1/1	2/2
Brett Miller *(appointed 8 July 2020)*	n/a	n/a	n/a	n/a	n/a
Ken Hillen *(resigned 26 May 2020)*	5/6	1/1	4/4	1/1	1/1

Ken Hillen and David Stevenson did not attend all of the meetings of committees of the Board as they were not required to. Gaynor Coley chaired the dividend approval committee meetings 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. 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.

In prior years we have encouraged Shareholders to attend the AGM and to participate in the proceedings. However, on account of the Covid-19 pandemic and associated Government guidance, including the rules on physical distancing and limitations on public gatherings, Shareholders are strongly discouraged from attending the AGM, which will be held at 1:30pm on 16 December 2020, and indeed entry will be refused if the law and/or Government guidance so requires. Arrangements will be made by the Company to ensure that a minimum number of shareholders required to form a quorum will attend the AGM in order that the meeting may proceed. Given they are unlikely to be able to attend the AGM in person, shareholders are strongly encouraged to appoint the Chairman of the AGM as their proxy to vote on their behalf.

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.

On behalf of the Board

David Stevenson
Chairman
8 October 2020

Audit and Valuation Committee Report

Composition

The Audit and Valuation Committee comprises all of the 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.

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 reviews significant financial reporting issues and judgement which they contain, having regards to matters communicated by the external 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.

Audit and Valuation Committee Report (continued)

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.

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 revisited 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 24 June 2020. 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.

Audit and Valuation Committee Report (continued)

External audit *(continued)*
Certain non-audit services may be provided by the external auditor, 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 FRC's Revised Ethical Standard 2019 sets out a white list of non-audit services that are permitted to be provided and the Audit and Valuation Committee agreed that the external auditor may be able to provide non-audit services to the Company provided that:

- the Audit and Valuation Committee has completed an assessment of threats to independence and safeguards applied to address such threats;
- the services do not include any elements of those services prohibited in Regulation 80 of the Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177) (the "EU black list"); and
- the services are provided on a non-contingent fee basis.

The external auditor did not provide any non-audit services during the year or to the date of approval of the Annual Report and Financial Statements. For the year ended 30 June 2020, total fees, plus VAT, charged by RSM UK Audit LLP, together with amounts accrued at 30 June 2020, amounted to £40,000 (2019: £42,000), all of which related to audit services (2019: £42,000).

On behalf of the Audit and Valuation Committee

Gaynor Coley
Chairman of the Audit and Valuation Committee
8 October 2020

Directors' Remuneration Report

The Directors' Remuneration Report for the year ended 30 June 2020 has been prepared in accordance with the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 (SI 2019/970).

Composition

The Remuneration and Nominations Committee comprises all of the Directors of the Company and is chaired by Gaynor Coley. Prior to 8 July 2020, David Stevenson was the chairman of the Remuneration and Nominations Committee.

The Directors, all of whom are 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.

Under the terms of their appointment, each of the 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:

	With effect from 17 September 2020[1]	*Prior to 17 September 2020*
David Stevenson – Chairman and chairman of the Management Engagement Committee	£45,000	£37,500 (£27,500 prior to 26 May 2020)
Gaynor Coley – chairman of the Audit and Valuation Committee and chairman of the Remuneration and Nominations Committee	£40,000	£31,250
Brett Miller	£40,000	£27,500 (from 8 July 2020)

[1] The remuneration of the Directors changed with effect from the 17 September 2020, when Shareholders voted to change the investment objective of the Company and to proceed with a managed wind-down, which the Directors believe will involve substantial extra effort.

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.

Directors' Remuneration Report (continued)

Remuneration policy *(continued)*
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.

Annual report on remuneration ***(audited)***
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 2020 was:

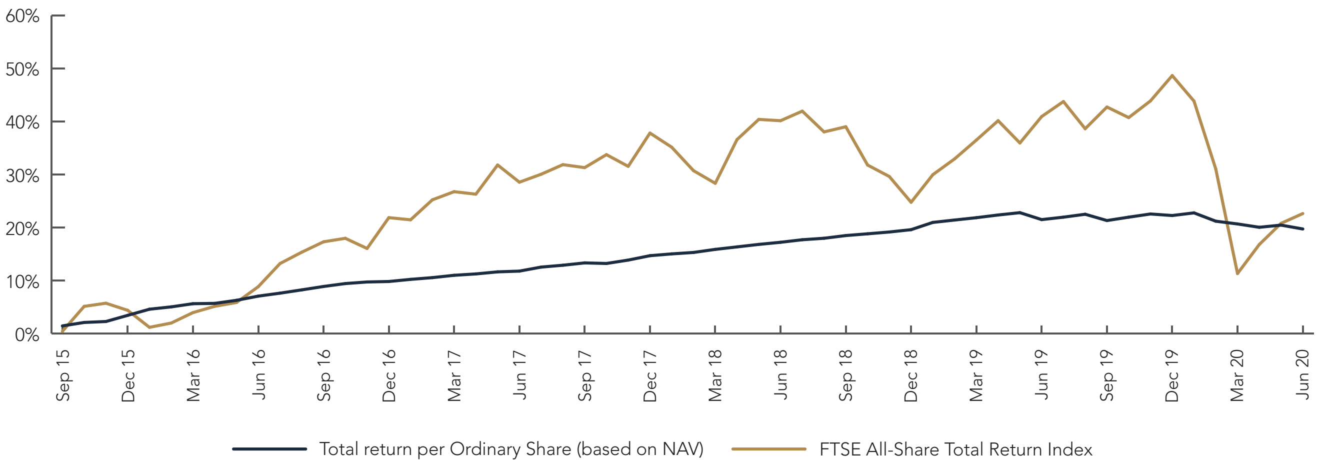
	Year ended 30 June 2020 £	Year ended 30 June 2019 £
David Stevenson	28,417	27,500
Gaynor Coley	31,250	28,405
Brett Miller *(appointed on 8 July 2020)*	–	–
Ken Hillen *(resigned on 26 May 2020)*	33,846	34,665
Richard Hills *(resigned on 18 December 2018)*	–	17,474
Total	**93,513**	**108,044**

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 (2019: none).

During the year, no payments were made to persons who had previously been Directors of the Company (2019: 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 2020 £	*Year ended 30 June 2019 £*
Total Directors' remuneration	93,513	108,044
Total dividend payments [1]	3,684,118	3,684,118

[1] Total dividend payments includes the interim dividends which were paid from the profits of the Company for the year ended 30 June 2020, including the dividends paid on 24 July 2020 and 28 August 2020 of £307,010 each (2019: £307,010 each), which were not provided for at 30 June 2020 as, in accordance with IFRS, they were not deemed to be liabilities of the Company at that date.

Directors' shareholdings in the Company *(audited)*

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 2020, and at the date of this report, Directors' shareholdings in the Company were as follows:

	30 June 2020 Ordinary shares	*8 October 2020 Ordinary shares*
David Stevenson	20,256	20,256
Gaynor Coley	2,092	2,139

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. However, as the Company is now in a managed wind-down, the Remuneration and Nominations Committee are not aiming to increase the diversity of the Board at this stage.

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. Following the year end, the Remuneration and Nominations Committee undertook a review of fees against peer companies and in light of the time commitment and skills of the Directors. The outcome of the review was that the Remuneration and Nominations Committee recommended an increase in the Directors' remuneration with effect from 17 September 2020, as disclosed in the Remuneration Policy.

On behalf of the Board

Gaynor Coley
Chairman of the Remuneration and Nominations Committee
8 October 2020

Regulatory Disclosures

AIFMD disclosures

In accordance with the AIFMD, the Company is classified as an Alternative Investment Fund ("AIF") and has appointed KSL, with effect from 5 June 2020, as its AIFM (previously SQN US) 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 KSL is a non-EEA AIFM, KSL is only subject to the AIFMD to the extent that it markets an EEA AIF in the EEA. Therefore, KSL 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 for the period ended 5 June 2020 was £357,000 (2019: £500,000), all fixed remuneration (2019: all fixed remuneration). There were three beneficiaries (2019: 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 period ended 5 June 2020 was £123,000 (2019: £256,000).

The total remuneration of the staff of KSL since its appointment was £90,250 (2019: n/a), all fixed remuneration (2019: n/a). There were three beneficiaries (2019: n/a). The aggregate amount of remuneration of senior management and members of staff of KSL whose actions had a material impact on the risk profile of the Company during the year was £50,000 (2019: n/a).

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 (https://kkvim.com/ 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 17 to 18 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 (https://kkvim.com/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 Secured Income Fund plc

Opinion

We have audited the financial statements of Secured Income Fund plc (the 'Company') for the year ended 30 June 2020 which comprise the 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 2020 and of the its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- 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 as applied to listed public interest entities 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.

Emphasis of matter – non-going concern basis

We draw attention to note 2 of the financial statements which describes the preparation of the financial statements on a non-going concern basis. As described in note 2, following the outcome of the Company's continuation vote on 19 June 2020 and general meeting on 17 September 2020, a special resolution has been approved by the shareholders to put the Company into a managed wind-down and the Directors will now carry out an orderly realisation of the Company's portfolio of assets in order to meet the distribution of cash to shareholders. As a result the Directors have not prepared the financial statements on a going concern basis. There have been no adjustments made to the financial statements as a result of the application of the non going concern basis of accounting. Our opinion is not modified in respect of this matter.

Summary of our audit approach

Key audit matters

- Investments – Valuation

Materiality

- Overall materiality: £455,000 (2019: £161,000)
- Performance materiality: £341,000 (2019: £121,000)
- Specific materiality (income statement items only): £45,500

Scope

Our audit procedures covered 100% of revenue, total assets and loss before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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

Key audit matter description

As disclosed in note 14, the Company holds a loan book with a total carrying value of £42.6 million as at 30 June 2020. The accounting policy adopted and judgements made in relation to the valuation of these assets is set out in note 3b) and note 4.

There is significant management judgement involved in assessing the recoverability of these loans, taking into consideration the Company's contractual rights, available evidence of work performed and ongoing commercial negotiations. Therefore, there is a risk in relation to the valuation and potential impairment of the loans.

Independent Auditor's Report to the members of Secured Income Fund plc (continued)

Investments – Valuation *(continued)*

Key audit matter description (continued)

The outbreak of COVID-19 and the economic impact of this pandemic on the global economy, has increased the level of uncertainty over management's assessment of the recoverability of these loans – as stated in note 4 this has meant that there is a material uncertainty in relation to the level of impairment provision that has been recognised.

In the current year the Company has recognised an impairment charge of £3,299,000 and written-off a total of £268,000 in respect of non-performing loans.

How the matter was addressed in the audit

We have reviewed the impairment summary provided by management as at 30 June 2020 in line with the methodology and judgements made by management as described in note 4.

Our work included reviewing and challenging management's assessment of the allocation of the individual loans as stage 1, stage 2 or stage 3, including the level of expected credit losses applied to each loan, obtaining an understanding of the security held in respect of specific loans and reviewing and verifying a sample of cash receipts in the period and post year-end to support the explanations provided to us by management.

We obtained and reviewed updated legal documentation and official communications for any COVID related payment holidays or loan extensions offered by the Company.

In addition, for platform loans, we requested and reviewed additional supporting evidence, provided by the platforms, to support the current monitoring update and credit worthiness of a sample of the platforms underlying borrowers and compared this information to managements own impairment assessment as at 30 June 2020 to highlight any significant discrepancies or defaults that may have occurred after 30 June 2020.

We have discussed our work with management and reviewed the disclosures made in the financial statements in relation to management's review of impairments and the uncertainties involved.

Key observations

Management have undertaken their assessment of the impairment of the loan portfolio held at amortised cost as at 30 June 2020 in accordance with the Company's accounting policies, and in accordance with the requirements of IFRS 9 'Financial Instruments', there is an increased level of uncertainty in respect of the current global economic environment which may impact on the future recoverability of the Company's loan portfolio.

As a result of our audit work and challenge to management the Directors have enhanced the disclosures related to this matter.

As disclosed on page 50 the Directors have not changed their methodology for calculating Expected Credit Losses as the rapidly changing situation means that they are unable to obtain information that is consistent and reliable in order to provide a more reliable determination of expected credit losses than provided by their current methodology.

This material uncertainty, is disclosed in the accounting judgements within note 4 on page 51.

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. Based on our professional judgement, we determined materiality as follows:

Overall materiality

£455,000 (2019: £161,000) with a specific materiality of £45,500 for income statement items.

Basis for determining overall materiality

1% of Net Assets (2019: 5% of profit before tax). The specific materiality for Statement of Comprehensive Income items is based on 5% of the result before tax.

Our application of materiality *(continued)*

Rationale for benchmark applied

The Company has been put into managed wind-down with the focus now on extracting the maximum value for shareholders out of the remaining investment portfolio. Net Asset Value is therefore deemed to be the most appropriate benchmark for the wind-down as profit and loss and returns to shareholders will fluctuate year on year.

As the Statement of Comprehensive Income includes a number of smaller income and expense balances compared to the Statement of Financial Position, we consider it appropriate to maintain an earnings based benchmark for calculating a specific materiality for all Statement of Comprehensive Income items.

Performance materiality

£341,000 (2019: £121,000).

Basis for determining performance materiality

75% of overall materiality.

Reporting of misstatements to the Audit Committee

Misstatements in excess of £22,700 and misstatements 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 full scope statutory audit.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 1 to 69 other than the financial statements and our auditor's report thereon. 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, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with 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
- the Strategic Report and the Directors' 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 and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns; or

Independent Auditor's Report to the members of Secured Income Fund plc (continued)

Matters on which we are required to report by exception *(continued)*

- 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.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 27, 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 and Valuation Committee, we were appointed by the Board on 9 September 2016 to audit the financial statements for the year ending 30 June 2016 and subsequent financial periods.

The period of total uninterrupted engagement is 5 years, covering the years ending 30 June 2016 to 30 June 2020.

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 and 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
8 October 2020

Statement of Comprehensive Income

for the year ended 30 June 2020

	Note	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Revenue			
Interest income	*3f*	4,315	4,026
Other income		–	30
Total revenue		**4,315**	**4,056**
Operating expenses			
Management fees	*7a*	(483)	(513)
Broker fees		(197)	(79)
Other expenses	*11*	(164)	(169)
Transaction fees	*7a*	(147)	(81)
Administration fees	*7b*	(117)	(117)
Legal and professional fees		(97)	(51)
Directors' remuneration	*8*	(94)	(108)
Total operating expenses		**(1,299)**	**(1,118)**
Investment gains and losses			
Movement in unrealised gains and losses on loans due to movement in foreign exchange on non-Sterling loans	*14*	410	110
Impairment losses on financial assets (or loans)	*14*	(3,299)	(415)
Movement in unrealised gain on investments at fair value through profit or loss	*15*	19	1
Movement in unrealised gain/(loss) on derivative financial instruments	*17*	345	(319)
Realised (loss)/gain on disposal of loans		(536)	16
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 on derivative financial instruments	*17*	(852)	(206)
Total investment gains and losses		**(3,913)**	**(861)**
Net (loss)/profit from operating activities before (loss)/gain on foreign currency exchange		**(897)**	**2,077**
Net foreign exchange (loss)/gain		(16)	159
(Loss)/profit and total comprehensive income for the year attributable to the owners of the Company		**(913)**	**2,236**
(Loss)/earnings per Ordinary Share *(basic and diluted)*	**13**	**(1.73)p**	**4.25p**

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 46 to 69 form an integral part of the financial statements.

Statement of Changes in Equity

for the year ended 30 June 2020

	Note	*Called up share capital £'000*	*Special distributable reserve £'000*	*Profit and loss account £'000*	*Total £'000*
At 30 June 2018		577	50,942	20	51,539
Impact of transition to IFRS 9		–	–	(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)
At 30 June 2019		**577**	**50,253**	**(701)**	**50,129**
Loss for the year	*22*	–	–	(913)	(913)
Transactions with Owners in their capacity as owners:					
Dividends paid	*5, 22*	–	(2,072)	(1,612)	(3,684)
At 30 June 2020		**577**	**48,181**	**(3,226)**	**45,532**

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 46 to 69 form an integral part of the financial statements.

Statement of Financial Position

as at 30 June 2020

	Note	30 June 2020 £'000	30 June 2019 £'000
Non-current assets			
Loans at amortised cost	*14*	31,942	36,614
Investments at fair value through profit or loss	*15, 16*	251	232
Total non-current assets		**32,193**	**36,846**
Current assets			
Loans at amortised cost	*14*	10,691	10,642
Cash held on client accounts with platforms	*14*	–	48
Other receivables and prepayments	*18*	1,625	1,141
Cash and cash equivalents		1,193	1,987
Total current assets		**13,509**	**13,818**
Total assets		**45,702**	**50,664**
Current liabilities			
Other payables and accruals	*19*	(164)	(184)
Derivative financial instruments	*16, 17*	(6)	(351)
Total liabilities		**(170)**	**(535)**
Net assets		**45,532**	**50,129**
Capital and reserves attributable to owners of the Company			
Called up share capital	*21*	577	577
Other reserves	*22*	44,955	49,552
Equity attributable to the owners of the Company		**45,532**	**50,129**
Net asset value per Ordinary Share	*23*	**86.37p**	**95.10p**

These financial statements of Secured Income Fund plc (registered number 09682883) were approved by the Board of Directors on 8 October 2020 and were signed on its behalf by:

David Stevenson	Gaynor Coley
Chairman	Director
8 October 2020	8 October 2020

The accompanying notes on pages 46 to 69 form an integral part of the financial statements.

Statement of Cash Flows

for the year ended 30 June 2020

	Year ended 30 June 2020 £'000	*Year ended 30 June 2019 £'000*
Cash flows from operating activities		
Net (loss)/profit before taxation	(913)	2,236
Adjustments for:		
Movement in unrealised gains and losses on loans due to movement in foreign exchange on non-Sterling loans	(410)	(110)
Impairment losses on financial assets (or loans)	3,299	415
Movement in unrealised gain on investments at fair value through profit or loss	(19)	(1)
Movement in unrealised (gain)/loss on derivative financial instruments	(345)	319
Realised loss/(gain) on disposal of loans	536	(16)
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 on derivative financial instruments	852	206
Amortisation of transaction fees	147	81
Interest received and reinvested by platforms	(50)	(287)
Capitalised interest	(1,486)	(915)
Decrease/(increase) in investments	1,783	(2,141)
Net cash inflow/(outflow) from operating activities before working capital changes	3,394	(165)
Increase in other receivables and prepayments	(484)	(369)
(Decrease)/increase in other payables and accruals	(20)	19
Net cash inflow/(outflow) from operating activities	**2,890**	**(515)**
Cash flows from financing activities		
Dividends paid	(3,684)	(3,623)
Net cash outflow from financing activities	**(3,684)**	**(3,623)**
Decrease in cash and cash equivalents in the year	**(794)**	**(4,138)**
Cash and cash equivalents at the beginning of the year	1,987	6,125
Cash and cash equivalents at the year end	**1,193**	**1,987**
Supplemental cash flow information		
Non-cash transaction – interest income	1,536	1,202

The accompanying notes on pages 46 to 69 form an integral part of the financial statements.

Notes to the Financial Statements

for the year ended 30 June 2020

1. GENERAL INFORMATION

The Company is a public company (limited by shares) and was incorporated and registered in England and Wales under the Companies Act 2006 on 13 July 2015 with registered number 09682883. The Company's shares were admitted to trading on the London Stock Exchange Specialist Fund Segment on 23 September 2015 ("Admission"). The Company is domiciled in England and Wales.

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

Change of name

On 18 July 2020, the Company changed its name from SQN Secured Income Fund plc to Secured Income Fund plc.

2. STATEMENT OF COMPLIANCE

a) Basis of preparation

These financial statements present the results of the Company for the year ended 30 June 2020. 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 October 2019, 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.

The Company's capital is raised in Sterling, expenses are paid in Sterling, the majority of the Company's financial assets and liabilities are Sterling based, and (until September 2020) the Company hedged substantially all of its foreign currency risk back to Sterling, Therefore, the Board of Directors consider that Sterling most faithfully represents the economic effects of the underlying transactions of the Company, events and conditions. These financial statements are presented in Sterling, which is the Company's functional and presentation currency. All amounts are rounded to the nearest thousand.

Non-Going Concern

On 19 June 2020, the Company held a continuation vote (the "Continuation Vote") that, in line with the Directors' recommendation, did not pass. This vote was required under the Articles as the Company did not have a Net Asset Value of at least £250 million as at 31 December 2019. As this vote did not pass, the Directors (as required under the Articles) convened a further general meeting of the Company on 17 September 2020 at which a special resolution approved the managed wind-down of the Company and the adoption of the new investment policy of the Company, as set out on pages 4 and 5, to carry out an orderly realisation of the Company's portfolio of assets and distribution of cash to Shareholders.

This has had no significant impact on the accounting policies, judgements or carrying value of assets and liabilities within the financial statements as the loans are included net of their expected credit loss provision ("ECL") and are expected to be realised in an orderly manner, and the estimated costs of winding up the Company are immaterial.

The Covid-19 outbreak is a risk to the global economy. Details of the macroeconomic impact and the impact on credit risk are provided in the Investment Manager's Report. The Investment Manager and Administrator invoked their business continuity plans to help ensure the safety and well-being of their staff thereby retaining the ability to maintain business operations. These actions helped to ensure business resilience. The situation is changing so rapidly that the full impact cannot yet be understood, but the Company will continue to monitor the situation closely.

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.

Given the Company's investment policy to carry out an orderly realisation of the Company's portfolio of assets and distribution of cash to Shareholders, the financial statements have been prepared on a non-going concern basis.

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

2. STATEMENT OF COMPLIANCE (CONTINUED)

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.

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.

Classification

IFRS 9 requires the classification of financial assets to be determined on both the business model used for managing the financial assets and the contractual cash flow characteristics of the financial assets. Loans have been classified at amortised cost as:

- they are held within a "hold to collect" business model with the objective to hold the assets to collect contractual cash flows; and
- the contractual terms of the loans give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company's unquoted investments have been classified as held at fair value through profit or loss as they are held to realise cash flows from the sale of the investments.

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.

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.

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial assets and liabilities *(continued)*

Derecognition (continued)

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.

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.

The carrying value of cash and cash equivalents and other receivables and payables equals fair value due to their short-term nature.

Impairment

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).

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial assets and liabilities *(continued)*

Impairment (continued)

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.

For more details in relation to judgements, estimates and uncertainty see note 4.

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.

The carrying values of cash and cash equivalents are deemed to be a reasonable approximation of their fair values.

d) Receivables and prepayments

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

The carrying values of the accrued interest and other receivables are deemed to be reasonable approximations of their fair values.

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".

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

IFRIC 23 Uncertainty over income tax treatment

The adoption of this accounting standard did not have any effect on the Company's Statement of Comprehensive Income, Statement of Financial Position or equity.

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 7	Financial Instruments: Disclosures – *amendments regarding pre-replacement issues in the context of the IBOR reform*	1 January 2020
IFRS 9	Financial Instruments – *amendments regarding pre-replacement issues in the context of the IBOR reform*	1 January 2020
IAS 1	Presentation of Financial Statements – *amendments regarding the definition of materiality*	1 January 2020
IAS 1	Presentation of Financial Statements – *amendments regarding the classification of liabilities*	1 January 2023
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors – *amendments regarding the definition of materiality*	1 January 2020

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. 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.

Judgements

In the process of applying the Company's accounting policies, management made the following judgement, which has had a significant effect on the amounts recognised in the financial statements:

Covid-19

The Covid-19 outbreak is impacting virtually all businesses and the Board expects that it will continue to impact economies over the coming months. The Board and Investment Manager is monitoring any impact this may have on the Company, its investments and income. The situation continues to change rapidly so the full impact cannot yet be understood, a result of which is that future cashflows and valuations are more uncertain at the current time, and may be more volatile than in recent years. Indeed, the level of estimation uncertainty and judgement for the calculation of expected credit losses has increased as a result of the economic effects of the Covid-19 outbreak. However, the impact of defaults that might occur in future under different economic scenarios has been reflected in various models to enable the Board to evaluate the Company's viability, and the Directors believe that the Company is well placed to survive the impact of the Covid-19 outbreak, thereby enabling the Company to realise its assets in an orderly manner.

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.

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

4. USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimates and assumptions *(continued)*

The current economic uncertainty (and the frequent changes in outlook for different economic sectors) has created increased volatility and uncertainty (as mentioned above and in the Investment Manager's Report). In such circumstances the level of estimation uncertainty and judgement of expected credit losses has increased. As noted in the Investment Manager's Report, there are uncertainties about the need for future provisions that may need to be made against individual loans and receivables. Notwithstanding the best endeavours of management to obtain full repayment there is a material uncertainty in relation to the level of provisioning made in these financial statements. Due to this material uncertainty the Directors are unable to update the expected credit loss assessment (as set out in note 3b) to reflect the likely impact on the Company's loan portfolio.

i) Recoverability of loans and other receivables

In accordance with IFRS 9, 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.

As mentioned above, due to the Covid-19 pandemic future cashflows and valuations are more uncertain at the current time, and may be more volatile than in recent years. Indeed, the level of estimation uncertainty and judgement for the calculation of expected credit losses has increased as a result of the economic effects of the Covid-19 outbreak.

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.

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 are 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 is 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.

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

4. USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimates and assumptions *(continued)*

i) Recoverability of loans and other receivables (continued)

12 month ECL is 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 12 month 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, Lifetime ECL is calculated on an individual basis. Lifetime ECL is reviewed at each reporting date based on reasonable and supportive information available at the time.

The following borrower information should be read in conjunction with the current economic environment and, in particular, the impact of Covid-19.

US Peer to Peer business (Borrower 18) impairment

The Company's largest peer to peer investment is a junior position and represents a risk of write-down. In March 2019, the Former 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 Former Investment Manager would take over collections and it was explained that the Former Investment Manager had a good track record, together with its partners, in achieving better recoveries.

In June 2019, having observed slow progress, the Former Investment Manager began a series of meetings to agree interaction mooted in the previous quarter. Two executives from the Former Investment Manager visited Borrower 18 in New York in July 2019 and August 2019, 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 2020, the Company has impaired this platform exposure by 100% 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 100% impairment rate is based upon the Investment Manager's past experience of platform performance.

Whilst a 100% impairment is based on past experience, the amount finally received may be higher than this. A 10% decrease in the impairment on this loan would result in a £232,000 increase in the net asset value of the Company.

UK Venture Debt (Borrower 12) impairment

In September 2019, this platform made the Company aware that a loan was to be sold at a discount to the price originally expected, due to a series of potential acquirers falling away. This resulted in an impairment provision in the year. After the turbulence of two of the three principals leaving the company and triggering a clause in the Loan Note agreement that allowed us to take closer control of the process of managing the portfolio, the business has stabilised and made very good progress in winding down the portfolio. The Company received £1.6 million shortly after year end, leaving a balance of £5.8 million outstanding.

The largest position in the portfolio, a broadband company, has been restructured and was impaired by 59% at the year end, which has been informed by the guidance provided by the platform. However, the reorganisation of the business has progressed well and a new CEO employed. Its order book has increased and it has been able to operate throughout the current pandemic crisis. The Investment Manager, therefore, expects some improvement in recovery.

Small Company Bond Platform (Borrower 15) impairment

Two loans outstanding from this platform were repaid during the reporting period and a further loan was sold to a third party. The only outstanding debt from this platform had undergone a protracted recovery process through the courts. In Q1 2020, the Investment Manager took the decision to fully impair the loan due to slow progress and the increased risk that fees and expenses would erode any repayment to the Company.

Further details of the judgements applied in assessing the recoverability of loans can be found in the Investment Manager's Report on pages 8 to 15.

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

4. USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimates and assumptions *(continued)*

i) Recoverability of loans and other receivables (continued)

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 £268,000 were written off in the year (2019: £126,000).

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 KKV 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 KKV 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.

In April 2020, as a result of the impact of Covid-19 a Stage 1 direct loan (gross value of £428,000 at the year end) was renegotiated to allow the payment of interest only for three months, which was subsequently extended to six months. No write-down has been applied to this loan as the Investment Manager has determined, after extensive discussion with the borrower and as the interest continues to be paid in full, that there was not a significant increase in credit risk and thus not necessary to reclassify the loan to Stage 2.

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 Ordinary Share with effect from July 2018, and a dividend of 0.583p per Ordinary Share has been paid every month since then. The monthly dividend at the new rate of 0.583p per Ordinary Share was first paid in September 2018.

The Company elected to designate all of the dividends for the year ended 30 June 2020 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.

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

5. DIVIDENDS (CONTINUED)

To date, the Company has declared the following dividends in respect of earnings for the year ended 30 June 2020:

Announcement date	*Pay date*	*Total dividend declared in respect of earnings in the year £'000*	*Amount per Ordinary Share*
29 August 2019	27 September 2019	307	0.583p
25 September 2019	25 October 2019	307	0.583p
31 October 2019	29 November 2019	307	0.583p
27 November 2019	27 December 2019	307	0.583p
18 December 2019	24 January 2020	307	0.583p
30 January 2020	28 February 2020	307	0.583p
27 February 2020	27 March 2020	307	0.583p
25 March 2020	24 April 2020	307	0.583p
30 April 2020	29 May 2020	307	0.583p
28 May 2020	26 June 2020	307	0.583p
25 June 2020	24 July 2020	307	0.583p
30 July 2020	28 August 2020	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		614	1.17p
Dividends paid in the year		3,684	7.00p

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 £3,684,000 (2019: £3,623,000) was incurred in respect of dividends, none of which was outstanding at the reporting date (2019: none). The dividends of £307,010 each, which were declared on 25 June 2020 and 30 July 2020, had not been provided for at 30 June 2020 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 26 August 2020, the Company declared a dividend of 3.50p per Share for the period from 1 July 2020 to 31 July 2020. This dividend was paid on 25 September 2020.

Mechanics for returning cash to Shareholders

The Board has carefully considered the potential mechanics for returning cash to Shareholders and the Company's ability to do so. The Board believes it is in the best interests of Shareholders as a whole to make distributions to Shareholders without a significant delay following realisations of a material part of the Portfolio (whether in a single transaction or through multiple, smaller transactions concluded on similar timing). In the Board's view, making distributions by way of a declaration of dividends has the benefit of being faster, providing a more regular return (as opposed to simply waiting to return all available amounts on a liquidation) and being more cost effective to administer than other mechanisms, such as a tender offer or B share scheme, although the Board notes that returning investment principal by way of a declaration of dividends may not be the most tax efficient method of returning monies to investors who are UK tax resident individuals. However, the Board may consider making tender offers for Shares in the future although Shareholders should have no expectation that this will be the case.

The Board intends to make quarterly dividend payments for the time being (instead of the current monthly dividends) but will keep this under review. It may become more appropriate in future as the size of the Company declines to instead make payments by way of ad-hoc special dividends, when appropriate, during the course of the managed wind-down process so that the Company is able to return available cash to Shareholders as soon as reasonably practicable after cash becomes available in the Portfolio. The Company will also look to structure its dividend payments to maintain investment trust status for so long as it remains listed.

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

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 was Neil Roberts, who was chairman of SQN Capital Management, LLC at that time. The loan bore interest at 10.0% per annum and was for a period of five years from the date of drawdown. The loan was to be repaid via 60 monthly payments. The loan was repaid early in March 2020.

Loan interest of £57,000 was earned in the year (2019: £104,000), none of which was outstanding at 30 June 2020 (2019: £2,000).

At 30 June 2020, the balance of the loan was £nil (2019: £909,000).

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

On 5 June 2020, the Company novated the contract to manage the portfolio to KKV Investment Management Limited, following the management team into their new entity from the Former Investment Manager (SQN UK).

The Investment Manager has responsibility for managing the Company's portfolio. For their services, the Investment Manager was entitled to a management fee (on the same terms as the Former Investment Manager) 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.

During the year, a total of £483,000 (SQN UK, £452,000 and KKV, £31,000) (2019: £513,000 all SQN UK) was incurred in respect of management fees, of which £37,000 was payable at the reporting date (SQN UK, £6,000 and KKV, £31,000) (2019: £42,000 to SQN UK).

From 17 September 2020, the 1.0% per annum base management fee was reduced as follows:

- for 12 months from 17 September 2020 to 16 September 2021, to 0.75% per annum of the Company's NAV; and
- from 17 September 2021, to 0.55% of the Company's NAV.

Performance fee

From 17 September 2020, the Investment Manager is entitled to a performance fee. The performance fee will be calculated using the most recent NAV prior to the Company failing the June 2020 Continuation Vote (being the NAV as at 31 May 2020) as the benchmark NAV (the "Benchmark NAV"). If 99% of the Benchmark NAV is returned to Shareholders by way of dividend, share buy backs or other methods of return of capital within 12 months from 17 September 2020 then a performance fee of 0.6% of the value returned to Shareholders would be payable to KKV. This will be reduced by 0.1% for every 1% less than 99% of Benchmark NAV that is returned to Shareholders.

Should the time taken to realise the Portfolio exceed 12 months from 17 September 2020, then for the period from 17 September 2021 to 17 September 2022, the incentive fee would reduce by 33% (so that, for example if 99% of Benchmark NAV is returned by month 17, the performance fee would be two-thirds of 0.6%).

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

7. KEY CONTRACTS (CONTINUED)

a) Investment Manager *(continued)*

Performance fee (continued)

The introduction of an outperformance fee, under the terms of the amended Investment Management Agreement, states that KKV will be entitled to 10% of all funds returned to Shareholders in excess of the Benchmark NAV within 12 months from 17 September 2020, reducing to 5% within 12-24 months.

Effective from 17 September 2021, the notice period applicable to termination of the Investment Management Agreement by either party was reduced from 12 months to 4 months.

Transaction costs

Prior to the change in the investment policy, the Company incurred transaction costs for the purposes of structuring investments for the Company. These costs formed part of the overall transaction costs that were capitalised at the point of recognition and were taken into account by the Former Investment Manager when pricing a transaction. When structuring services were provided by the Former Investment Manager or an affiliate of them, they were 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 was not charged in respect of assets acquired from the Former Investment Manager, the funds they managed or where they or their affiliates did not provide such structuring advice.

The Former Investment Manager agreed to bear all the broken and abortive transaction costs and expenses incurred on behalf of the Company. Accordingly, the Company agreed that the Former Investment Manager may retain any commitment commissions received by the Former 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.

During the year, transaction costs of £147,000 (2019: £81,000) were amortised.

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 (2019: £117,000) was incurred in respect of administration fees, of which £28,000 (2019: £30,000) was payable at the reporting date.

8. DIRECTORS' REMUNERATION

During the year, a total of £93,513 (2019: £108,044) was incurred in respect of Directors' remuneration, none of which was payable at the reporting date (2019: 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 34 to 36.

9. KEY MANAGEMENT AND EMPLOYEES

The Company had no employees during the year (2019: 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):

David Stevenson	£1,417 (2019: £1,394)
Gaynor Coley	£143 (2019: £12)
Ken Hillen *(resigned 26 May 2020)*	£291 (2019: £344)
Richard Hills *(resigned 18 December 2018)*	£0 (2019: £428)

10. AUDITOR'S REMUNERATION

For the year ended 30 June 2020, total fees, plus VAT, charged by RSM UK Audit LLP, together with amounts accrued at 30 June 2020, amounted to £40,000 (2019: £42,000), all of which related to audit services (2019: £42,000). As at 30 June 2020, £40,000 (2019: £40,000) was due to RSM UK Audit LLP.

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

11. OTHER EXPENSES

	Year ended 30 June 2020 £'000	*Year ended 30 June 2019 £'000*
Audit fees *(note 10)*	40	42
Registrar fees	36	37
Other expenses	33	34
Directors' national insurance	26	28
Listing fees	18	17
Accountancy and taxation fees	11	11
	164	**169**

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 2020 £'000	*Year ended 30 June 2019 £'000*
Reconciliation of tax charge:		
(Loss)/profit before taxation	(913)	2,236
Tax at the standard UK corporation tax rate of 19% (2019: 19%)	(173)	425
Effects of:		
– Non-taxable investment gains and losses	743	164
– Interest distributions	(570)	(589)
Total tax expense	**–**	**–**

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

	Year ended 30 June 2020	*Year ended 30 June 2019*
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. (LOSS)/EARNINGS PER ORDINARY SHARE

The (loss)/earnings per Ordinary Share of (1.73)p (2019: 4.25p) is based on a (loss)/profit attributable to the owners of the Company of £(913,000) (2019: £2,236,000) and on a weighted average number of 52,660,350 (2019: 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 2020 (continued)

14. LOANS AT AMORTISED COST

	Year ended 30 June 2020 £'000	*Year ended 30 June 2019 £'000*
Loans	45,944	47,726
Unrealised loss*	(3,311)	(422)
Balance at year end	**42,633**	**47,304**
Loans: Non-current	31,942	36,614
Current	10,691	10,642
Cash held on client accounts with platforms	–	48
Loans at amortised cost and cash held on client accounts with platforms	**42,633**	**47,304**
*Unrealised loss		
Foreign exchange on non-Sterling loans	1,125	715
Impairments of financial assets	(4,436)	(1,137)
Unrealised loss	**(3,311)**	**(422)**

The movement in unrealised gains/losses on loans comprises:

	Year ended 30 June 2020 £'000	*Year ended 30 June 2019 £'000*
Movement in foreign exchange on non-Sterling loans	410	110
Movement in impairments	(3,299)	(415)
Movement in unrealised gains and losses on loans	**(2,889)**	**(305)**
Impact of transition to IFRS 9	–	(23)
Total movement in unrealised gains and losses on loans	**(2,889)**	**(328)**

The weighted average interest rate of the loans as at 30 June 2020 was 10.44% (2019: 10.31%).

The table below details expected credit loss provision ("ECL") of financial assets in each stage at 30 June 2020:

	Stage 1 £'000	*Stage 2 £'000*	*Stage 3 £'000*	*Total £'000*
30 June 2020				
Direct loans [1]	34,419	–	–	34,419
ECL on direct loans	(17)	–	–	(17)
Direct loans net of the ECL	34,402	–	–	34,402
Platform loans [1]	7,214	–	5,346	12,560
ECL on platform loans	(7)	–	(4,412)	(4,419)
Platform loans net of the ECL	7,207	–	934	8,141
Accrued interest	1,585	–	–	1,585
Total loans [1]	41,633	–	5,346	46,979
Total ECL	(24)	–	(4,412)	(4,436)
Total net of the ECL	41,609	–	934	42,543

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

14. LOANS AT AMORTISED COST (CONTINUED)

	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 2020 and do not include the capitalised transaction fees, which are not subject to credit risk. At 30 June 2020, the amortised cost of the capitalised transaction fees totalled £90,000 (2019: £233,000).

The table below details the movements in the year ended 30 June 2020 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 2019	44,617	(28)	3,117	(735)	426	(374)	48,160	(1,137)
Transfers from:								
– stage 1 to stage 3	(2,066)	2	–	–	2,066	(2)	–	–
– stage 2 to stage 3			(3,117)	735	3,117	(735)	–	–
Net re-measurement of ECL arising from transfer of stage	–	–	–	–	–	(3,584)	–	(3,584)
Net new and further lending/ repayments, and foreign exchange movements	(918)	2	–	–	5	15	(913)	17
Loans written-off in the year	–	–	–	–	(268)	268	(268)	268
At 30 June 2020	41,633	(24)	–	–	5,346	(4,412)	46,979	(4,436)

[1] These are the principal amounts outstanding at 30 June 2020 and do not include the capitalised transaction fees, which are not subject to credit risk. At 30 June 2020, the amortised cost of the capitalised transaction fees totalled £90,000.

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

14. LOANS AT AMORTISED COST (CONTINUED)

The table below details the movements in the year ended 30 June 2019 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.

An increase of 1% of total gross exposure into stage 2 (from stage 1) would result in an increase in ECL impairment allowance of £11,000 (2019: £12,000) based on applying the difference in average impairment coverage ratios to the movement in gross exposure.

At 30 June 2020, the Board considered £4,436,000 (2019: £1,137,000) of loans to be impaired:

	30 June 2020 £'000	*30 June 2019 £'000*
Borrowers 14 and 18	2,318	566
Borrower 12	1,060	8
Borrower 15	416	17
Borrower 17	345	62
Borrower 16	280	466
Direct SME loans	17	15
Other	–	3
Total impairment	4,436	1,137

During the year, £268,000 (2019: £126,000) of loans were written off and included within realised (loss)/gain on disposal of loans in the Statement of Comprehensive Income.

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

The carrying values of the loans at amortised cost (excluding capitalised transaction costs) are deemed to be a reasonable approximation of their fair values.

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

15. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 30 June 2020 £'000	*Year ended 30 June 2019 £'000*
Balance brought forward	232	280
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	19	1
Balance at year end	**251**	**232**
Cost at year end	**159**	**159**

The £251,000 (2019: £232,000) investment at fair value through profit or loss relates to an investment in a Luxembourg fund. For further information on the investments at fair value through profit or loss, see note 16.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

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).

Financial assets and liabilities designated as at fair value through profit or loss

At 30 June 2020, the financial instruments designated at fair value through profit or loss were as follows:

	30 June 2020				*30 June 2019*			
Financial assets/(liabilities)	*Level 1 £'000*	*Level 2 £'000*	*Level 3 £'000*	*Total £'000*	*Level 1 £'000*	*Level 2 £'000*	*Level 3 £'000*	*Total £'000*
Unlisted equity shares	–	–	251	251	–	–	232	232
Derivative financial instruments *(note 17)*	–	(6)	–	(6)	–	(351)	–	(351)
Total financial assets/(liabilities) designated as at fair value through profit or loss	**–**	**(6)**	**251**	**245**	**–**	**(351)**	**232**	**(119)**

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 (2019: none).

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

16. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets and liabilities not designated as at fair value through profit or loss

The carrying values of the loans at amortised cost (excluding capitalised transaction costs) are deemed to be a reasonable approximation of their fair values. The carrying values of all other assets and liabilities not designated as at fair value through profit or loss are deemed to be a reasonable approximation of their fair values due to their short duration.

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 £852,000 (2019: loss of £206,000) on forward foreign exchange contracts that settled during the year.

As at 30 June 2020, the open forward foreign exchange contracts were valued at £(6,000) (2019: £(351,000)).

18. OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2020 £'000	*30 June 2019 £'000*
Accrued interest	1,585	1,090
Prepayments	27	27
Other receivables	13	24
	1,625	**1,141**

The carrying values of the accrued interest and other receivables are deemed to be reasonable approximations of their fair values.

19. OTHER PAYABLES AND ACCRUALS

	30 June 2020 £'000	*30 June 2019 £'000*
Audit fee	40	40
Management fee	37	42
Legal fees	36	25
Administration fee	28	30
Other payables and accruals	21	24
Directors' national insurance	2	23
	164	**184**

The carrying values of the other payables and accruals are deemed to be reasonable approximations of their fair values.

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 2020, the Company had no liabilities that would give rise to cash flows from financing activities (2019: none).

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

21. SHARE CAPITAL

	30 June 2020 £'000	*30 June 2019 £'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.

22. OTHER RESERVES

		Profit and loss account[2]		
	Special distributable reserve[1] £'000	*Distributable £'000*	*Non-distributable £'000*	*Total £'000*
At 30 June 2018	50,942	75	(55)	50,962
Impact of transition to IFRS 9	–	–	(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**
Realised revenue profit	–	3,000	–	3,000
Realised investment gains and losses	–	(1,388)	–	(1,388)
Unrealised investment gains and losses	–	–	(2,525)	(2,525)
Dividends paid	(2,072)	(1,612)	–	(3,684)
At 30 June 2020	**48,181**	**–**	**(3,226)**	**44,955**

[1] During the period ended 30 June 2016, and following the approval of the Court, the Company cancelled the share premium account and transferred £51,143,000 to a special distributable reserve, being premium on issue of shares of £52,133,000 less share issue costs of £990,000. The special distributable reserve is available for distribution to Shareholders.

[2] The profit and loss account comprises both distributable and non-distributable elements, as defined by Company Law. Realised elements of the Company's profit and loss account are classified as "distributable", whilst unrealised investment gains and losses are classified as "non-distributable".

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 2020 and 30 July 2020, were paid out of the special distributable reserve.

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

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 £45,532,000 (2019: £50,129,000), less £50,000 (2019: £50,000), being amounts owed in respect of Management Shares, and on 52,660,350 (2019: 52,660,350) Ordinary Shares in issue at the year end.

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.

Prior to the change in investment policy on 17 September 2020, the Company sought to ensure that diversification of its portfolio was 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, and as updated in the circular of 20 August 2020.

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.

In a Managed Wind-Down, the value of the Portfolio will be reduced as investments are realised and concentrated in fewer holdings, and the mix of asset exposure will be affected accordingly.

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Risk concentration *(continued)*

With the aim of maintaining a diversified investment portfolio, and thus mitigating concentration risks, the Company had established (prior to the change in the investment policy on 17 September 2020) 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 change in investment policy on 17 September 2020, except that, on 9 September 2020, in preparation for the upcoming change in investment policy, additional foreign currency forward contracts were entered into in order to equally and oppositely match the open contracts at that date.

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 2020, 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 and profit/(loss) would amount to approximately +/- £13,000 (2019: +/- £12,000). The maximum price risk resulting from financial instruments is equal to the £251,000 (2019: £232,000) carrying value of the investments at fair value through profit or loss.

(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.

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk *(continued)*

(ii) Foreign currency risk (continued)

As at 30 June 2020, 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 2020							
US Dollars	–	7,552	–	–	7,552	(7,531)	21
Euros	–	4,316	1	–	4,317	(4,121)	196
	–	**11,868**	**1**	**–**	**11,869**	**(11,652)**	**217**
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)**

In order to limit the exposure to foreign currency risk, the Company entered into hedging contracts during the year. At 30 June 2020, the Company held foreign currency forward contracts to sell US$9,340,000 and €4,550,000 (2019: sell US$11,480,000 and €4,110,000 and buy US$5,610,000 and €120,000) with a settlement date of 30 September 2020.

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. In September 2020, the Company closed out its foreign currency forward contracts and it is not intended to enter into foreign exchange hedging contracts in the future.

At 30 June 2020, 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 2020 and the profit/(loss) for the year ended 30 June 2020 would have increased/(decreased) by £11,000/£(10,000) (2019: (decreased)/increased by £(8,000)/£7,000), 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 £1,193,000 (2019: £1,987,000) were the only interest bearing financial instruments subject to variable interest rates at 30 June 2020. 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 £6,000 (2019: £10,000).

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk *(continued)*

(iii) Interest rate risk (continued)

30 June 2020	Fixed interest £'000	Variable interest £'000	Non-interest bearing £'000	Total £'000
Financial assets				
Loans[1]	42,633	–	–	42,633
Investments at fair value through profit or loss	–	–	251	251
Other receivables	–	–	1,598	1,598
Cash and cash equivalents	–	1,193	–	1,193
Total financial assets	**42,633**	**1,193**	**1,849**	**45,675**
Financial liabilities				
Other payables	–	–	(164)	(164)
Derivative financial instruments	–	–	(6)	(6)
Total financial liabilities	**–**	**–**	**(170)**	**(170)**
Total interest sensitivity gap	**42,633**	**1,193**	**1,679**	**45,505**
30 June 2019				
Financial assets				
Loans[1]	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**

[1] Of the loans of £42,633,000 (2019: £47,256,000), two loans amounting to £10,527,000 (2019: £11,499,000) included both fixed elements and variable elements, based on the performance of the borrowers' underlying portfolios of loans.

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.

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk *(continued)*

(iii) Interest rate risk (continued)

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.

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 2020, credit risk arose principally from cash and cash equivalents of £1,193,000 (2019: £1,987,000) and balances due from the platforms and SMEs of £42,633,000 (2019: £47,304,000). 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 and note 14 for information on the loans at amortised cost.

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 2020 was low since the ratio of cash and cash equivalents to unmatched liabilities was 7:1 (2019: 4:1).

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 is as follows:

	30 June 2020 Percentage	*30 June 2019 Percentage*
0 to 6 months	5.4	11.6
6 months to 18 months	30.1	31.2
18 months to 3 years	35.5	24.8
Greater than 3 years	29.0	32.4
	100.0	100.0

Notes to the Financial Statements

for the year ended 30 June 2020 (continued)

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Capital management

During the year, the Board's policy was 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 could 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 2020, 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 (2019: 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.

Following the Shareholder's approval of the change to investment policy and the managed wind-down of the Company, the Board intends to manage the Company's capital to enable it to make quarterly dividend payments for the time being (instead of the current monthly dividends), although this will be kept under review. It may become more appropriate in future as the size of the Company declines to instead make payments by way of ad-hoc special dividends, when appropriate, during the course of the managed wind-down process so that the Company is able to return available cash to Shareholders as soon as reasonably practicable after cash becomes available in the Portfolio. The Company will also look to structure its dividend payments to maintain investment trust status for so long as it remains listed.

25. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

There were no contingent assets or contingent liabilities in existence at the year end (2019: none).

26. EVENTS AFTER THE REPORTING PERIOD

Change of name

On 18 July 2020, the Company changed its name from SQN Secured Income Fund plc to Secured Income Fund plc.

Appointment of Director

On 8 July 2020, Brett Miller was appointed as a Director of the Company.

Change of investment policy

On 19 June 2020, the Company held the Continuation Vote that, in line with the Directors' recommendation, did not pass. This vote was required under the Articles as the Company did not have a Net Asset Value of at least £250 million as at 31 December 2019. As this vote did not pass, the Directors (as required under the Articles) convened a further general meeting of the Company on 17 September 2020 at which a special resolution approved the managed wind-down of the Company and the adoption of the new investment policy of the Company, as set out on pages 4 and 5.

Change of Investment Management fees

On 17 September 2020, the Company agreed to amend the terms of the Investment Management Agreement such that the base investment management fee was reduced and a performance fee added (see note 7a).

Dividends

Two dividends of 0.583p per Ordinary Share, which (in accordance with IFRS) were not provided for at 30 June 2020, have been declared out of the profits for the year ended 30 June 2020 (see note 5).

On 26 August 2020, the Company declared a dividend of 3.50p per Ordinary Share for the period from 1 July 2020 to 31 July 2020. This dividend was paid on 25 September 2020.

There were no other significant events after the reporting period.

27. PARENT AND ULTIMATE PARENT

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

Notice of Annual General Meeting 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 Dickson Minto, 16 Charlotte Square, Edinburgh, EH2 4DF on 16 December 2020 at 1:30pm to consider and, if thought fit, to pass the following resolutions which are proposed as ordinary resolutions:

ORDINARY BUSINESS

1. To receive the Company's audited financial statements for the year ended 30 June 2020, 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 2020.

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 David Clive Stevenson as a Director of the Company.

8. To elect Brett Miller as a Director of the Company.

SPECIAL BUSINESS

9. 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 9 have been purchased by the Company, (ii) the conclusion of the next annual general meeting of the Company to be held in 2021 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.

Notice of Annual General Meeting (continued)

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.

By order of the Board
SECURED INCOME FUND PLC
8 October 2020

Registered Office:
Level 13 Broadgate Tower
20 Primrose Street
London
EC2A 2EW

Notes to the Notice of Annual General Meeting

1 On account of the Covid-19 pandemic and associated Government guidance, including the rules on physical distancing and limitations on public gatherings, it is not advisable for Shareholders to attend the AGM, and indeed entry will be refused if the law and/or Government guidance so requires and/or the Board believes it is necessary to ensure the health, wellbeing and safety of the Company's Shareholders and officers. In the light of the current circumstances, arrangements are being made by the Company to ensure that only the minimum number of shareholders or their proxies required to form a quorum will attend the AGM. Shareholders are therefore strongly encouraged to participate in the business of the AGM by exercising their votes in advance of the AGM and appointing the Chairman of the AGM as their proxy to vote on their behalf.

2 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 but in the light of the circumstances with the Covid-19 pandemic it is recommended that you appoint the Chairman of the AGM as your proxy. 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 14 December 2020. 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.

3 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 14 December 2020. 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.

4 As at 22 September 2020 (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 22 September 2020, the total number of voting rights in the Company is 52,660,350.

Notice of Annual General Meeting (continued)

5 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.

6 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.

7 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.

8 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.

9 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.

10 A copy of this notice of AGM, and other information required by section 311A of the Companies Act 2006, can be found at https://kkvim.com/secured-income-fund/.

11 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.

Directors

David Stevenson *(non-executive Chairman)*
Gaynor Coley *(non-executive Director)*
Brett Miller *(non-executive Director)*

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