RECI
REAL ESTATE CREDIT INVESTMENTS

REAL ESTATE CREDIT INVESTMENTS LIMITED

Annual Report & Accounts 2018

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HIGHLIGHTS

Increase in total and net assets driven by growth in profits and a successful capital raise programme

TOTAL ASSETS

£308.2m

As at 31 March 2018
(2017: £189.3m)

NET ASSETS

£228.5m

As at 31 March 2018
(2017: £144.3m)

NAV PER SHARE

£1.64

As at 31 March 2018
(2017: £1.63)

TOTAL NET PROFIT

£14.9m

Year ended 31 March 2018
(2017: £9.1m)

Note: All pictures in this report are of RECI's investments or Cheyne's offices.

AT A GLANCE

COMPELLING RISK-ADJUSTED RETURNS

SUMMARY INVESTMENT OBJECTIVE

Real Estate Credit Investments ("RECI") is a closed-ended investment company which originates and invests in real estate debt secured by commercial or residential properties in Western Europe, focusing primarily on the United Kingdom, France and Germany.

The Company's aim is to deliver a stable quarterly dividend with minimal volatility, across economic and credit cycles, through a levered exposure to real estate credit investments.

Investments are predominantly in:

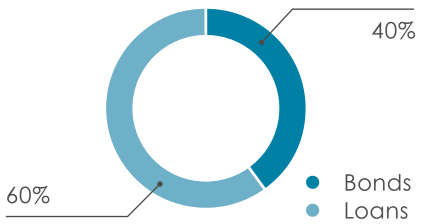
Loans
Real estate loans

Bonds
Listed real estate debt securities such as Commercial Mortgage Backed Securities ("CMBS") bonds.

INVESTMENT PORTFOLIO COMPOSITION

RECI's investment portfolio, a diversified book of 44 positions in real estate bonds and loans, was valued at £245.4 million as at 31 March 2018, up from £159.0 million as at 31 March 2017. The portfolio had a weighted average levered yield of 10.0% and an average loan-to-value of 66.4% as at 31 March 2018.

INVESTMENT PORTFOLIO COMPOSITION
(FUNDED FAIR VALUE)



PORTFOLIO BREAKDOWN

INVESTMENT PORTFOLIO

£245.4m

WA YIELD

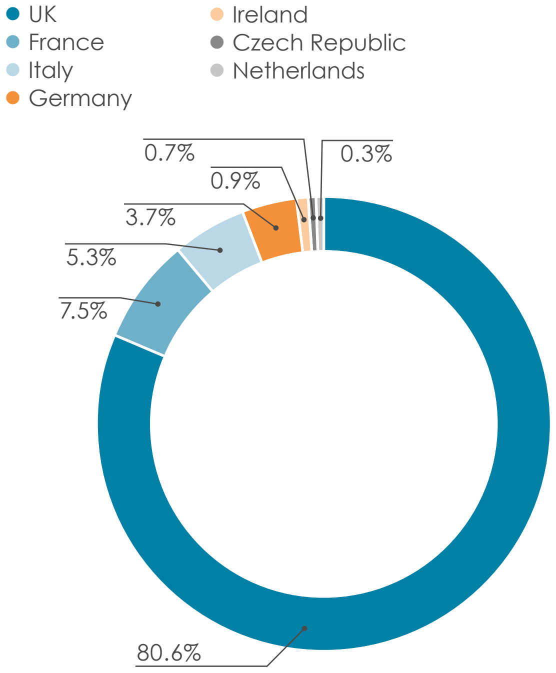
£10.0%

NUMBER OF POSITIONS

44

PORTFOLIO BY GEOGRAPHY

(FUNDED FAIR VALUE)



LOAN PORTFOLIO SUMMARY

AS AT 31 MARCH 2018

Number of Loans	21
Drawn Value	£148.1m
Undrawn Loan Commitments	£86.9m
Weighted Average Yield	10.3%
Weighted Average LTV	66.3%
Weighted Average Life	2.2

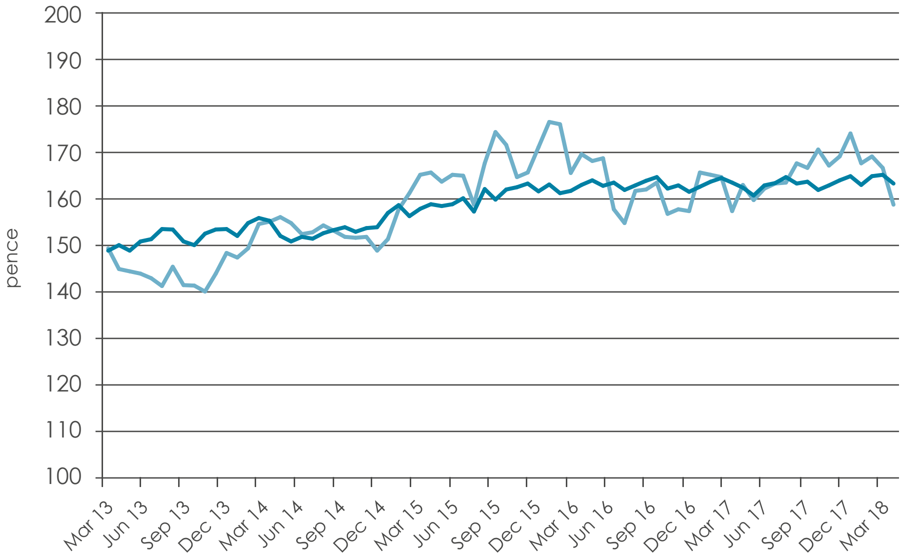
BOND PORTFOLIO SUMMARY

AS AT 31 MARCH 2018

Number of Bonds	23
Fair Value	£97.3m
Nominal Face Value	£106.1m
Weighted Average Unlevered Yield	6.3%
Weighted Average Levered Yield	9.2%
Weighted Average LTV	66.6%
Weighted Average Life	3.1

PERFORMANCE

— SHARE PRICE VS — NAV



TOTAL NAV RETURN

MTD	YTD	1 yr	3 yr	5 yr
0.6%	2.0%	7.1%	27.7%	67.3%

YTD = Calendar year, 1yr = 2017, 3yr = 2015–2017, 5yr = 2013–2017

NAV & SHARE PRICE

AS AT 31 MARCH 2018

Net Assets	£228.5m
Shares Outstanding	139.4m
NAV (pence per share)	£1.636
Share Price (pence per share)	£1.590
Premium/(Discount)	-2.8%
Dividend Yield	7.5%
Market Capitalisation	£221.6m

ABOUT THE COMPANY

The Company invests in real estate debt secured by commercial or residential properties in Western Europe, focusing primarily on the United Kingdom, France and Germany.

Real Estate Credit Investments Limited ("RECI" or the "Company") is a non-cellular company incorporated in Guernsey and is governed by the Companies (Guernsey) Law, 2008 (the "Companies Law"). The Company is regulated as an authorised, closed-ended investment scheme by the Guernsey Financial Services Commission. At the AGM in September 2017 the continuation vote was passed and a further continuation resolution will be proposed at the AGM to be held in 2021.

The Company invests in real estate debt secured by commercial or residential properties in Western Europe, focusing primarily on the United Kingdom, France and Germany, countries where it sees the changing dynamics in the real estate debt market offering a sustainable deal flow for the foreseeable future. The Company has adopted a long term strategic approach to investing and focuses on identifying value in real estate debt.

In making these investments the Company uses the expertise and knowledge of its Alternative Investment Fund Manager ("AIFM"), Cheyne Capital Management (UK) LLP ("Cheyne" or the "Investment Manager").

The Ordinary Shares ("Ordinary Shares") are currently listed on the premium segment of the Official List of the UK Listing Authority and trade on the Main Market of the London Stock Exchange plc. Ordinary Shares offer investors a levered exposure to a portfolio of real estate credit investments and pay a quarterly dividend. On 16 September 2017, the Company redeemed all of its 41,930,419 Preference Shares at a total value, including the accrued interest up to redemption, of £42.6 million and cancelled the 3,032,415 Preference Shares which were held in Treasury. The listing of the Preference Shares ("Preference Shares"), on the Official List of the UK Listing Authority was cancelled on 18 September 2017 and trading in them on the Main Market of the London Stock Exchange plc ceased on the same date.

During the period 23 February 2017 to 31 March 2018 the Company raised gross proceeds of £109.9 million, through the issuance of new Ordinary Shares. Of this £84.7 million, gross, was raised during the financial year ended 31 March 2018.

Website and Share Price Information

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

Investment Objective and Policy

Investment Objective

The investment objective of the Company is to provide Ordinary Shareholders with attractive and stable returns, primarily in the form of quarterly dividends, by exposure to a diversified portfolio of real estate credit investments, predominantly comprising real estate loans and bonds.

Investment Policy

To achieve the investment objective, the Company invests and will continue to invest in real estate credit secured by commercial or residential properties in the United Kingdom and Western Europe **("Real Estate Credit Investments")**. The Real Estate Credit Investments may take different forms but are likely to be:

i. secured real estate loans, debentures or any other forms of debt instruments (together **"Secured Debt"**). Secured real estate loans are typically secured by mortgages over the property or charges over the shares of the property-owning vehicle. Individual Secured Debt investments will have a weighted average life profile ranging from six months to 15 years. Investments in Secured Debt will also be directly or indirectly secured by one or more commercial or residential properties, and shall not exceed a loan to value (**"LTV"**) of 85%. at the time of investment;
ii. listed debt securities and securitised tranches of real estate related debt securities, for example, residential mortgage-backed securities and commercial mortgage-backed securities (together **"MBS"**), for the avoidance of doubt, this does not include equity residual positions in MBS;
iii. other direct or indirect opportunities, including equity participations in real estate, save that no more than 20%. of the Total Assets will be invested in positions with an LTV in excess of 85%. or in equity positions that are uncollateralised. On certain transactions the Company may be granted equity positions as part of its loan terms. These positions will come as part of the Company's overall return on its investments and may or may not provide extra profit to the Company depending on market conditions and the performance of the loan. These positions are deemed collateralised equity positions. All other equity positions that the Company may invest in are deemed uncollateralised equity positions.

Dividend Policy

Subject to the applicable requirements and restrictions contained in the Companies Law, the Company may consider making interim dividend payments to Ordinary Shareholders, having regard to the net income remaining after the potential reinvestment of cash or other uses of income, at a level the Directors deem appropriate, in their sole discretion, from time to time. There is no fixed date on which it is expected that dividends will be paid to Ordinary Shareholders. The Directors intend that the Company pays dividends to Ordinary Shareholders when it is able and appropriate to do so. It is the intention of the Company to continue to pay a stable quarterly dividend with the potential for additional payments if investment returns permit.

Alternative Investment Fund Managers Directive

Additional Information on the Company, including information on the Alternative Investment Fund Managers Directive ("AIFMD"), can be found either in this Annual Report or on the website at www.recreditinvest.com.

Data Protection Laws

Following the introduction of the EU General Data Protection Regulation ("GDPR") and The Data Protection (Bailiwick of Guernsey) Law, 2017 ("DPGL") (together "the Data Protection Laws"), the Company, its Corporate Broker, the Registrar and/or the Administrator may be deemed to hold personal data (as defined in the Data Protection Laws) relating to past and present Shareholders.

Any personal data will be held and processed by the Company (and any third party to whom it may delegate certain functions) in compliance with: (1) all applicable data protection legislation and regulatory requirements; and (2) the Company's (and, if applicable, the Administrator's and any other third party delegate's) Privacy Notice, a copy of which is available for consultation on the Company's website at www.recreditinvest.com. The foregoing processing of personal data is required in order to perform the contract with the prospective investor, to perform legal obligations incumbent upon it or otherwise is required for legitimate interests of the Company. A data subject may in certain circumstances object to the processing of its personal data and such rights and the matter in which they can be exercised are set out in the Company's Privacy Notice.

Prospective investors are responsible for informing any third party individual to whom the personal data relates to the disclosure and use of such data in accordance with these provisions and the prospective investors must provide a copy of all relevant Privacy Notices that have been provided to such third parties as appropriate.

A TRANSFORMATIVE YEAR

I am pleased to report upon a year of growth and further development which the Company achieved during the financial period ended 31 March 2018. Shareholders voted overwhelmingly for the continuation of the Company at last year's AGM; the Company's Preference Shares were redeemed in September 2017, simplifying the capital structure and reducing RECI's cost of borrowing; and over 51 million new Ordinary Shares were issued.

Bob Cowdell
Chairman

Financial Performance

RECI reported total net profit for the financial year ended 31 March 2018 of £14.9 million on year end Total Assets of £308.2 million (£9.1 million in the year ended 31 March 2017 on year end Total Assets of £189.3 million).

The NAV at 31 March 2018 was £1.64 per Ordinary Share, a modest increase on the NAV of £1.63 per Ordinary Share as at both 31 March 2017 and 31 March 2016. While fluctuations in NAV from time to time are inevitable, the Board is focused on seeking to deliver a stable NAV while providing an attractive and sustainable dividend stream for our shareholders. During the financial year ended 31 March 2018, the Company's Ordinary Shares traded at an average premium to NAV of 2.4%.

A fourth interim dividend of 3.0p per Ordinary Share was declared on 14 June 2018 for the quarter ended 31 March 2018. Total dividends declared in respect of the financial year ended 31 March 2018 were 12.0p per share, returning £13.7 million to our Ordinary Shareholders.

The 31 March 2018 NAV reflects the payment of 12.0p per Ordinary Share during the financial year, providing an annualised total return of 7.6% for the year ended 31 March 2018.

In accordance with their terms of issue, all of the Company's 44,962,834 Preference Shares, including those held in treasury, were redeemed and cancelled on 16 September 2017 at a total value of £41.9 million. During the year ended 31 March 2018, the Company paid a dividend of 2p per Preference Share in respect of the quarter ended 30 June 2017 and a final dividend of 1.7p per Preference Share in respect of the period from 1 July 2017 to the redemption date.

Since redemption, RECI has replaced some of the Preference Share leverage, which carried a coupon of 8% per annum, with short term leverage at a significantly lower cost of borrowing (the weighted average cost being 1.96% per annum as at 31 March 2018). The Board believes that this, combined with the reduction in the Management Fee (which is only payable on net assets post the Preference Shares' redemption), should enhance the risk adjusted returns and the overall yield of the Company. The Company continues to evaluate a range and combination of potential leverage options.

During the financial year to 31 March 2018, the Company committed £131.0 million into 8 new loans and purchased £95.2 million of new bonds for the portfolio. RECI also received cash repayments and interest of £161.8 million in this period.

Placing Programme

On 23 February 2017, the Company implemented a placing programme ("the Placing Programme") for up to 65 million Ordinary Shares, with the initial placing of 15.5 million new Ordinary Shares completed in March 2017 raising gross proceeds of £25.3 million. Three further placings under the Placing Programme were successfully completed during the financial year ended 31 March 2018, raising gross proceeds in July of £23.5 million, in September of £40.7 million and in December of £17.9 million, resulting in the full 65 million Ordinary Shares available under the programme being issued.

In addition, 1,564,488 Ordinary Shares were placed raising £2.6 million pursuant to the Company's tap issue authority at the same time as the December placing to cater for excess demand.

> *I would like to express the Board's appreciation of the support of our existing and new investors, which has underpinned the growth of your Company.*

In aggregate, gross proceeds of approximately £84.7 million were raised during the year ended 31 March 2018, which has seen the introduction of new investors diversifying the Company's ownership and the liquidity of RECI's Ordinary Shares enhanced, by achieving a market capitalisation of circa £230.0 million.

The proceeds raised by the Placing Programme and tap issue have been fully invested in accordance with the Company's investment strategy and such investments are supporting the Company in continuing to deliver on its Investment Objective to provide Shareholders with attractive and stable returns, primarily in the form of quarterly dividends.

Board Update

With regret, the Company announced on 3rd January 2018 that Sarah Evans was stepping down as a non-executive director due to health reasons. Sarah made a highly valued contribution during her tenure on the Board and we wish her well for the future.

As announced on 20 February 2018, we welcomed Susie Farnon to the Board as an independent non-executive director and we are already benefitting from the extensive accounting, property and investment company experience she brings to RECI. On 1 April 2018, Susie was appointed to the Board of the Association of Investment Companies, the industry's trade body, as a representative of the offshore funds sector.

Comment and Outlook

The Company's achievements in the last financial year have been delivered against a backdrop of changes in market sentiment and an uncertain political and economic outlook. Your Investment Manager remains focused on identifying the best risk adjusted opportunities available and compiling an evolving portfolio that can seek to deliver consistent and robust NAV performance over time and provide an attractive and sustainable dividend yield for our Shareholders. The Board, as advised by Cheyne, continues to be positive about the investment opportunities available to RECI within real estate credit markets generally and currently in senior loans and core income bonds, in particular.

Finally, I would like to express the Board's appreciation of the support of our existing and new investors, which has underpinned the growth of your Company.

Bob Cowdell
Chairman
14 June 2018

THE OPPORTUNITY SET IN SENIOR LOANS AND BONDS REMAINS COMPELLING AND SUSTAINABLE

OBJECTIVES	PROGRESS IN YE 31 MARCH 2018
1 PROVIDE INVESTORS WITH A DIVERSIFIED PORTFOLIO OF REAL ESTATE CREDIT INVESTMENTS	• Over the course of the last financial year RECI has invested a total of £226.2 million, of which £131.0 million was in real estate loan commitments and £95.2 million invested in real estate bonds.
2 DELIVER A STABLE QUARTERLY DIVIDEND WITH MINIMAL VOLATILITY	• Paid out 3 pence per share each quarter, 12 pence over the year. • A total of £13.7 million returned to our Ordinary Shareholders.
3 EXPLOIT OPPORTUNITIES IN THE REAL ESTATE MARKET	**Example Assets** • £17.3 million senior loan for the development of a prime London office to 25 residential apartments and a medical facility. LTGDV: 39%. • £21.0 million across two bonds CMBS secured against the UK's largest operator of leisure parks. LTV: 65%, levered IRR: 23.7%.
4 GROW THE COMPANY IN LINE WITH OPPORTUNITIES THE INVESTMENT MANAGER IS DELIVERING	• Raised and invested gross proceeds of £110 million between February and December 2017 for the Company through its Placing Programme and tap issue.

PERFORMANCE HIGHLIGHTS

FINANCIAL HIGHLIGHTS

	31 Mar 2018	31 Mar 2017
Balance Sheet		
Fair Value of Loans	**£148.1m**	£109.3m
Fair Value of Bonds	**£97.3m**	£49.8m
Financing[1]	**£(78.3m)**	£(41.9m)
Cash, Cash Equivalents and Cash Held by Brokers	**£9.6m**	£24.9m[2]
Other Assets and Liabilities	**£51.8m[3]**	£2.2m
Net Assets	**£228.5m**	£144.3m

1 Financing at 31 March 2018 comprised of short term financing and at 31 March 2017 comprised of Preference Shares which were redeemed in September 2017.
2 This amount includes Placing cash proceeds.
3 Includes €18.95m and £24.13m of bond sales. The proceeds were received on 3 April 2018 and were used to immediately repay €14.12m and £25.59m of financing on 3 April 2018.

	31 Mar 2018	31 Mar 2017
Profit and Loss		
Operating Income	**£20.6m**	£15.8m
Finance Costs	**£(1.9m)**	£(3.4m)
Operating Expenses	**£(3.7m)**	£(3.2m)
Net Profit	**£14.9m**	£9.1m
Weighted Average Yield of Loan Portfolio	**10.3%**	11.9%
Weighted Average Yield of Bond Portfolio (unlevered)	**6.3%**	5.1%

KEY PERFORMANCE INDICATORS

	31 Mar 2018	31 Mar 2017
Balance Sheet		
Net Asset Value ("NAV") per Ordinary Share	**£1.64**	£1.63
Share Price	**£1.590**	£1.625
Premium/(Discount)	**(2.8%)**	(0.4%)
Weighted Average Premium/(Discount) in Year	**2.40%**	(1.20%)
Effective Leverage (% of NAV)[1]	**17.5%**	29.0%

	31 Mar 2018	31 Mar 2017
Profit and Loss		
Earnings Per Ordinary Share	**13.0p**	12.0p
Dividends per Ordinary Share Declared for the Year	**12.0p**	11.6p
NAV Total Return (including dividends) Annualised	**7.6%**	6.8%

1 Effective Leverage excludes amounts due to counterparties that had already matured prior to the reporting date.

Further Information

Monthly fact sheets as well as quarterly update presentations are also available on the Company's website: **www.recreditinvest.com**.

STRATEGIC REPORT

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

Objective, Investment Policy and Business Model

The Objective and Investment Policy are set out on page 4, and further to this the Company's business model is detailed in the Investment Manager's Report. There is also an 'About the Company' section on page 4 explaining in more detail the corporate structure and listings of the Shares.

RECI is externally managed by Cheyne, a UK investment manager authorised and regulated by the Financial Conduct Authority ("FCA"). Cheyne is a limited liability partnership registered in England and Wales on 8 August 2006 and is authorised and regulated in the conduct of investment business in the United Kingdom by the FCA. Cheyne is also the AIFM of the Company.

Current and Future Development

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

Performance

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

A number of performance measures are considered by the Board and the Investment Manager in assessing the Company's success in achieving its objectives, and considering its progress and performance. The Key Performance Indicators ("KPIs") are shown on page 3.

Duties and Responsibilities

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

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

The Board is responsible to the shareholders for the overall management and strategy of the Company, but has delegated day to day operation to the Investment Manager and State Street (Guernsey) Limited (the "Administrator" or "Company Secretary"), while reserving the powers of decision making relating to the determination of investment policy, corporate structure and the management of the share capital of the Company.

The Board is further responsible for financial reporting and controls and determining the dividend and accounting policies. While the Investment Manager manages the portfolio of the Company, the Board retains responsibility for overseeing the Investment Manager and ensuring the establishment and ongoing operation of a sound system of internal control. Any material contracts and those not in the normal course of business, are also dealt with by the Board.
The Board is also responsible for its own structure, size and effectiveness, with the delegation of some duties to Committees made up of its members. The Board retains the control of the Committees and requires that they report to the full Board on a regular basis providing their findings and recommendations. The Nomination Committee reviews Director's remuneration and, as appropriate, makes recommendations to the Board; the Board sets the levels of remuneration, which are clearly communicated to Shareholders.
The Board performs a formal and rigorous review of its own performance and continually scrutinises its independence and transparency.

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

Long Term Viability

In accordance with provision C.2.2 of the revision of the Code of Corporate Governance, the Directors have assessed the prospect of the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Board has chosen a period of three years for the following reasons:

i. The Company's planning horizon covers a three year period;
ii. The next continuation vote is due 2021; and
iii. The weighted average life of the loan portfolio is 2.2 years and the majority of assets are expected to be realised in that period, or shortly thereafter.

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

The Board has identified a number of Principal Risks, which are detailed below. The Board has taken these into account when considering the long term viability of the Company.

The Board has performed the review over the three year period, stress testing the performance against a number of adverse scenarios, such as the fair value write down of the investments, or reduced cash flows from the investment portfolio. The fair value stress test was considered relevant to factor in any potential events affecting the underlying assets or credit concerns about the borrowers which potentially could impact on the fair value. The reduced cash flows stress test was considered relevant in the event of potential defaults arising on the loan portfolio and the inability to recover the interest or principal back in full. Even taking these stress scenarios into account and bearing in mind the liquidity of the bond portfolio the Company is expected to be able to meet its liabilities over the three year period.

Risk Management

It is the role of the Board of Directors to review and manage all risks associated with the Company, mitigating these either directly or through the delegation of certain responsibilities to the Audit Committee and Investment Manager.

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

Long-Term Strategic Risk

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

The Board monitors investment strategy and performance on an ongoing basis and regularly reviews the Objective and Investment Policy in light of prevailing investor sentiment to ensure the Company remains attractive to its shareholders. While the Board may seek to reduce any discount to NAV per share through share buybacks, there can be no guarantee that they will do so and or that such a tactic will be successful.

The Company has the authority to make market purchases of fully paid shares of up to 14.99%. of each class of shares in issue, and renewal of this authority will be sought from shareholders at the Annual General Meeting ("AGM") of the Company to be held in 2018 and at each subsequent AGM, or earlier at an extraordinary general meeting if the Directors consider it appropriate.

STRATEGIC REPORT CONTINUED

Target Portfolio Returns and Dividend
The Company's targeted returns are based on estimates and assumptions that are inherently subject to significant business and economic uncertainties and contingencies, and the actual rate of return may be materially lower than the targeted returns. In addition, the pace of investment may be slower than expected, or principal may be repaid earlier than anticipated, causing the return on affected investments to be less than expected. In addition if repayments are not promptly re-invested this may result in cash drag which may lower portfolio returns. However as the Company is able to invest in both bonds and loans, the Investment Manager has the ability to adjust the asset mix towards bonds thereby helping the Company mitigate potential cash drag when loan repayments are made.

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

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

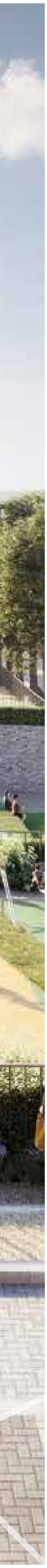
Valuation
The valuation and performance of the Company's investments that comprise its portfolio of Real Estate Credit Investments are the key value drivers for the Company's NAV and interest income. Judgements over fair value estimates could significantly affect these key performance indicators.

The Company categorises its financial assets and liabilities in accordance with IFRS13 and establishes fair value utilising the methodology set out in Note 14(d).

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.

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

Loans
The Company is subject to the risk that the underlying borrowers to the loans in which it invests, may default on their obligations and that certain events may occur which have an immediate and significant adverse effect on the value of such instruments. Any loan may become a defaulted obligation for a variety of reasons, including non-payment of principal or interest, as well as covenant violations by the borrower in respect of the underlying loan documents. In the event of any default on the Company's investment in a loan by the borrower, the Company will bear a risk of loss of principal and accrued interest on the loan, which could have a material adverse effect on the Company's investment. There can be no assurance that a borrower will not default, that there will not be an issue with the underlying real estate security or that an event which has an immediate and significant adverse effect on the value of these loans will



not occur, and that the Company will not sustain a loss on the transaction as a result.

The Company seeks to mitigate this risk by performing due diligence and monitoring its portfolio of investments, reviewing the underlying credit quality of its borrowers, performance of the underlying asset, and loan covenants compliance against financial information received and the performance of the security, on a quarterly basis.

Market Risk

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

The Company's strategy on the management of market risk is driven by the Company's investment objective as detailed on page 4 and in Note 1 of the financial statements.

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

Interest Rate Risk

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

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

Real estate loans can have fixed interest coupons and are therefore potentially exposed to the wider effects of changes in interest rates.

For bonds, the interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cash flows. A segment of the portfolio consists of floating rate debt investments which are exposed to interest rate risk through changes in interest rates potentially having an effect on prepayments and defaults of the underlying loans of the securitisations.

While retaining the ability to do so the Company does not currently enter into hedging arrangements in respect of interest rate fluctuations.

Currency Risk

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

The Company manages its foreign exchange risk on a portfolio basis. The Company may bear a level of currency risk that could otherwise be hedged where it considers that bearing such risks is appropriate. The Company manages its foreign exposure via forward foreign currency exchange contracts.

Liquidity Risk

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

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

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

For further information on risks please refer to Note 14.

ANOTHER YEAR OF POSITIVE PERFORMANCE

The Company had a strong year, successfully achieving the goals it set itself by growing the Company, diversifying its investor base, optimising its funding lines, fully deploying its raised capital, simplifying its investment thesis, lowering the risk profile of its book and delivering a stable dividend yield again.

On the origination front, Cheyne Capital's real estate debt platform's 2017 origination was substantially higher than in any previous year. This origination was concentrated at a lower risk point than prior years, whilst still maintaining the overall total returns. Given this pace of origination, RECI has already successfully invested all of the new capital raised.

It also successfully redeemed £41.9 million of its Preference Share capital, replacing it with relatively inexpensive and flexible funding.

On the credit front, there were no credit impairments or defaults in the year.

To investors, RECI has, yet again, delivered dividend stability through challenging economic cycles. In addition, the Company has substantially improved the liquidity of its shares by growing the Company and diversifying its investor base.

Last year sets the base, then, for the Company to further grow to match the large opportunity set presented by the Investment Manager, whilst maintaining its prudent risk profile and focus on dividend sustainability.

Ravi Stickney
Portfolio Manager

State of the Markets

European Real Estate Markets

The real estate market in Europe is best described as being polarised. Firstly, there is the marked divergence between the UK and Western European markets. And then there is the divergence in performance between types of assets (cyclicals and alternatives).

The UK market's performance has been notably poor. This is a continuation of the weakness that has gripped the market following the 2016 Brexit event. Markets have not recovered as buyers continue to price in the worst case Brexit outcomes for most asset classes. We do note, however, a significant increase in volume of deals being transacted, as sellers move to accept the markedly lower bid prices being presented by opportunistic buyers and as the low entry prices attract buyers to the UK markets.

Western Europe has seen a markedly different performance, with substantial capital inflows into the fast-improving French and Spanish markets in particular. This is based on the expectations of strong growth and recovery in the underlying economies.

To best demonstrate the divergence in expectations, we look at the valuations of the largest UK REITS compared to their European counterparts; the largest four UK REITS (British Land, Land Securities, Hammersons and Intu) trade at substantial discounts to NAV ranging from 25% for British Land to 52% for Intu. In contrast, the largest European REITS trade at, or just below, NAV.

In terms of asset types, cyclical assets (such as offices) have shown weakness across the board as investors reflect on markets possibly being at their peaks (for Europe) and economic weakness (for the UK). In contrast, we note the growing strength of the alternative asset classes, such as affordable housing, private rented accommodation, student accommodation, logistics, industrial and healthcare. These assets are viewed as being able to provide long-term stable income based on sustainable long-term demands.

The one asset class that has seen the worst decline in values and investor interest has been UK retail. In the first instance, the sector has suffered for some time now from the structural shift to online shopping channels. Brexit has exacerbated the issue for the UK by bringing about a squeeze on the consumer via higher inflation and stagnant economic growth. UK shopping centre yields are now the widest across Europe by a significant margin.

European Real Estate Debt Markets

The availability of debt for European real estate remains constrained by the same factors that have been in play for some time now; the ever-increasing regulatory constraints on new lending and weak balance sheets. In addition, Brexit continues to divert foreign banks from the UK markets, thus exacerbating the lack of financing for the UK.

Banks (both the high street banks and investment banks) continue to be active in lending where the regulatory capital constraints are the least, which is for core income assets, at a low leverage point (typically between 50% to 60% LTV). This leaves vast amounts of the market (value-add, development, alternatives) unserved.

Unlike the US markets, we have not yet seen a substantial inflow of alternative lending capital into the European markets. Whilst there have been new participants to the market, very few have been able to generate operations of the size and depth needed to sustain long-term lending solutions across the various types of lending needed by the market. This is in contrast to the US markets, where the mortgage REIT market is substantial and growing rapidly, thus presenting a squeeze on investment spreads.

We note the re-emergence of the CMBS market as a theme for 2018. Cheyne Capital continues to be a significant origination platform for new CMBS deals and a significant investor in CMBS deals brought by the investment banks. We are pleased to see that volumes of new CMBS deals (both originated by Cheyne and by banks) have grown significantly in the last three months and look set to continue.

The Opportunity for RECI

RECI benefits from access to Cheyne Capital's established origination and investment capabilities in both private debt (loans) and listed debt (bonds) across Europe.

Cheyne Capital has seen its origination volumes in the last year significantly ahead of any previous year. This is mainly due to the further retrenchment of banks, the increasing volume of real estate deal flows, the ability of Cheyne Capital's platform to continually present innovative and timely solutions to the real estate community and the growth of its origination capabilities into France in particular (following on from the established origination capabilities in the UK and Germany).

Cheyne Capital originates all of its private debt (in contrast to taking participations in externally originated deals), thus capturing superior economics and retaining control over the deal structure. It is also a prominent investor in the listed bond markets for real estate (mainly CMBS).

The current investing theme favoured by Cheyne is to move into a lower risk position, whilst maintaining its total returns. This is in response to the increasing uncertainties in the global economy as well as in the interest rates and real estate valuation cycles. For the UK, it is also in response to the ongoing uncertainties posed by Brexit.

Given this, the current investment focus is on:

- Senior lending against value-add and development assets (particularly in the UK).
- Senior lending against core and core+ income assets across Europe, retained as listed bonds and CMBS.

Cheyne Capital has a proven capability to generate attractive total returns from both investment types via a combination of coupon income, fees, profit sharing, syndicating and trading.

On the liability side, the Company has now successfully established a variety of flexible financing lines from a number of banks. This financing is, at present, utilised solely against the Company's liquid bond portfolio. The opportunity remains to further

INVESTMENT MANAGER'S REPORT CONTINUED

optimise its funding by deploying longer-term or off-balance sheet financing against its private credit loan book as well.

Capitalising on the Opportunity Set

Placement Programme

In recognition of the emerging sustainable opportunity set, RECI embarked on, and successfully completed, its Placing Programme for up to 65 million new Ordinary Shares in 2017. This, together with a tap issue of 1.6 million new Ordinary Shares in December, to cater for excess demand, raised aggregate gross proceeds of approximately £110.0 million for the Company; with the NAV as at 31 March 2018 increasing to £228.5 million from £144.3 million at the previous year end.

Deployment

RECI has already invested the net proceeds of the Placing Programme in debt secured by commercial or residential properties in the United Kingdom and Western Europe in the form of both secured real estate loans and CMBS. Since the Placing Programme closed, RECI has committed all of the capital raised to deals from the Investment Manager's strong pipeline of deals.

These new commitments (inter alia) include:

Loans

- In August, RECI committed £35 million to a senior loan secured on a new mixed-use residential and commercial development in Shoreditch, London.
- In December, £9 million in a new senior loan to fund a mid-market residential development in the South East of England.
- In January, RECI committed £27.2 million to a new senior loan to fund a mixed-use development in London.

All of the above senior loans have an entry LTV of between 55% and 74% and an expected IRR in the 8.5% – 10.6% range.

Bonds

- During the year, RECI bought £21.2 million across two tranches of a refinanced bond secured against the UK's largest and foremost operator of amusement parks and holiday villages. Flexible financing was taken against these bonds, with annualised levered returns of 20.0% and 16.2% respectively.
- In July, the Company invested €8.45 million in a new €25 million mezzanine bond originated by the Investment Manager. The bond is backed by prime retail assets and development sites across France.

Since 31 March 2018, the Company has invested €12.6 million in a new €155 million senior loan originated by the Investment Manager to refinance the debt of the LOV Hotel Collection ("LHC"). LHC is the luxury hotel branch of LOV Group which owns and manages prestigious hotels across some of France's top regions. A further €4 million was invested across two bonds in a new CMBS issue.

Over the course of the last financial year, RECI has invested a total of £231.4 million, of which £136.5 million was in real estate loan commitments and £94.9 million invested in real estate bonds.

In keeping with the current investment preference, of the loan commitments, 64.2% were in senior loans and 32.3% in mezzanine.

Looking Forward

The opportunity set in senior loans and bonds remains compelling and sustainable. RECI's ambition is to:

- Deliver a consistent dividend yield to investors through unpredictable economic times via superior origination and prudent risk management.
- Lower the risk profile of its book, by a focus on senior loans and core income bonds in core European economies.
- Maintain a complementary book, such that there is transparency in the Company's risk profile, while maintaining diversity without over exposure to any one position and investing across geographies and sectors.
- Further optimise its funding lines – to promote flexibility, stability and lower economic cost.
- Grow the Company in response to a growing opportunity set and the Investment Manager's strong ongoing investment pipeline.
- Promote liquidity in the Company's shares through growth and also a more diverse investor base.

Dividend Stability

The weighted average levered gross yield of the investment portfolio at 31 March 2018 was 10.0%, which after taking into account lowered expenses (on a per share basis), lowered financing costs and fair value adjustments, returned a total NAV per share (including dividends) of 7.6% in the financial year to 31 March 2018.

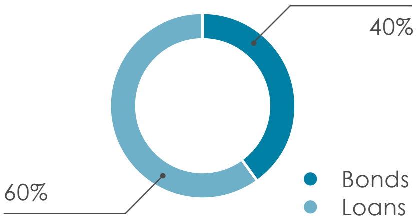
It remains the Company's ambition to maintain a stable dividend-paying capability through economic cycles.

PORTFOLIO COMPOSITION

Portfolio Composition

RECI's investment portfolio, a diversified book of 44 positions in real estate bonds and loans, was valued at £245.4 million as at 31 March 2018, up from £159.0 million as at 31 March 2017. The portfolio had a weighted average levered yield of 10.0% and an average loan-to-value of 66.4% as at 31 March 2018.

INVESTMENT PORTFOLIO



TOP 10 POSITIONS

TOTAL COMMITMENT[1]

£194.9m

WA LTV[2]

62.0%

WA YIELD[3]

9.5%

PORTFOLIO BY GEOGRAPHY (FUNDED FAIR VALUE)

	31 March 2018	31 March 2017
UK	**80.6%**	78.1%
France	**7.5%**	1.7%
Italy	**5.3%**	0.0%
Germany	**3.7%**	14.4%
Ireland	**0.9%**	2.8%
Czech Republic	**0.7%**	0.0%
Netherlands	**0.3%**	3.0%

Excludes 1.0% of the portfolio which is Pan-European.

TOP 10 POSITIONS

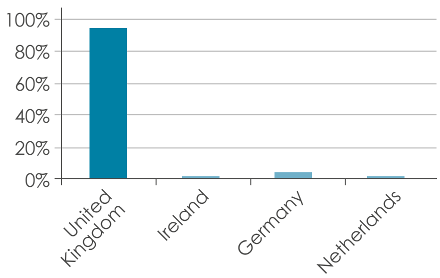
Description	Commitment	LTV	Sector	Investment Strategy	Loan Type
1 London Mixed Use Development	£34.8m	45%	Mixed-Use	Senior Loan	Development
2 London Mixed Use Development	£27.2m	65%	Mixed-Use	Senior Loan	Development
3 Regional UK Office Portfolio	£21.6m	63%	Office	CMBS	Core
4 London Office to Residential	£17.3m	39%	Residential	Senior Loan	Value Add/Transitional
5 Regional UK Housebuilder	£17.0m	88%	Residential	Profit Sharing Mezzanine Loan	Value Add/Transitional
6 Regional UK Housebuilder	£16.4m	79%	Residential	Senior Loan	Development
7 London Office Building	£15.7m	78%	Office	CMBS	Core
8 London Mixed Use Development	£15.6m	58%	Mixed-Use	Mezzanine Loan	Development
9 Regional UK Housebuilder	£15.2m	69%	Residential	Profit Sharing Mezzanine Loan	Value Add/Transitional
10 Central London Mixed Use Buildings	£14.0m	52%	Mixed-Use	Mezzanine Loan	Core+

1 Based on total commitment of bonds and loans.
2 The Weighted Average Loan-to-Value has been calculated by reference to the value of the relevant collateral of the relevant bond or loan.
3 WA based on commitment. WA effective yield is based on:
  i. for the bonds the effective yield is based on the current levered yield on the bonds using prices as at 31 March 2018; and
  ii. for the loans the yield stated is the effective accounting yield based on the funded loan balances, which includes interest and fees.

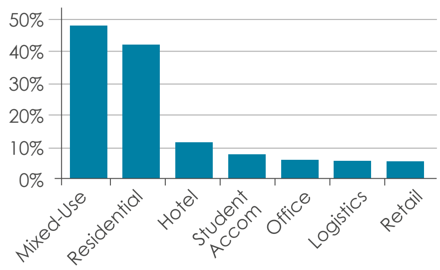
LOAN PORTFOLIO

LOAN PORTFOLIO SUMMARY

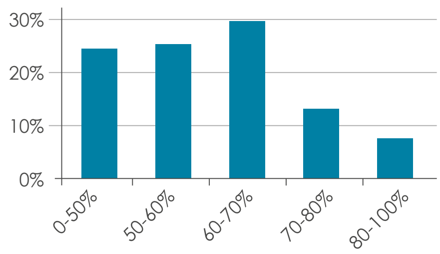
GEOGRAPHY



ASSET CLASS



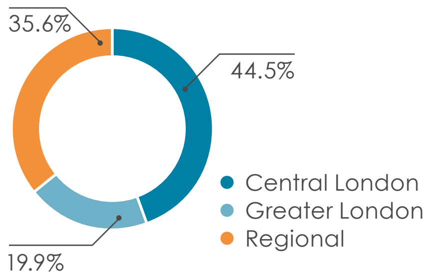
LTV



LOAN PORTFOLIO SUMMARY AS AT 31 MARCH 2018

Number of Loans	21
Drawn Value (£ millions)	148.1
Undrawn Loan Commitments (£ millions)	86.9
Weighted Average Yield of Loan Portfolio	10.3%
Weighted Average LTV of Loan Portfolio	66.3%
Weighted Average Life of Loan Portfolio (years)	2.2

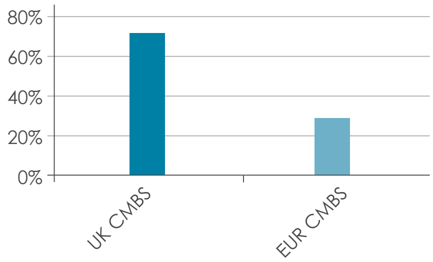
UK BREAKDOWN



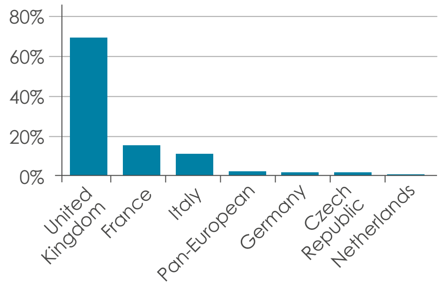
BOND PORTFOLIO

BOND PORTFOLIO SUMMARY

BOND STRATEGY



GEOGRAPHY



Portfolio Activity

The drawn fair value of the loan portfolio, excluding accrued interest, had increased from £109 million at 31 March 2017 to £148.1 million as at 31 March 2018. During the year, the Company made £131 million of new commitments over eight new deals, taking total loan commitments to £235.9 million as at 31 March 2018, up from £126 million as at 31 March 2017. The average loan portfolio LTV exposure as at 31 March 2018 was 66.3%. The portfolio continues to provide attractive risk-adjusted returns with a weighted average yield of 10.3% per annum, before any back end fees, profit share or equity element contributions are taken into account.

Real Estate Bond Portfolio

As at 31 March 2018, the bond portfolio of 23 bonds was valued at £97.3 million, with a nominal face value of £106.1 million, compared to 24 bonds valued at £49.8 million with a nominal face value of £55.9 million as at 31 March 2017. Taking both the recorded interest income and the fair value losses on the bonds in the year, the total gross return of the bond portfolio (reportable segment profit) in the year ended 31 March 2018 was £6.3 million compared to £4.6 million in the year ended 31 March 2017.

The bond portfolio, valued at £97.3 million, has the potential for strong defensive returns:

- Face value as at 31 March 2018 of £101.6 million.
- The portfolio is characterised by a short duration (3.0 years) and high coupon, which is defensive to interest rate rise and provides resilience in turbulent markets.
- The weighted average unlevered yield of the bond portfolio as at 31 March 2018 was 6.3%: the weighted average levered yield of the bond portfolio as at 31 March 2018 was 9.2%.

BOND PORTFOLIO SUMMARY

	As at 31 March 2018
Number of Bonds	23
Fair Value (£ millions)	97.3
Nominal Face Value (£ millions)	106.1

Per the latest released Fact Sheet, as at 30 April 2018, the portfolio consisted of 25 bonds with a fair value of £111.9 million and a nominal face value of £116.3 million.

Cheyne Capital Management (UK) LLP
14 June 2018

BOARD OF DIRECTORS

BOB COWDELL

CHAIRMAN
(UK RESIDENT)

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

GRAHAM HARRISON

SENIOR INDEPENDENT DIRECTOR
(GUERNSEY RESIDENT)

Mr Harrison is co-founder and managing director of Asset Risk Consultants Limited, an investment consulting practice based in Guernsey. After obtaining a Masters in Economics from the London School of Economics, he began his career working in structured finance for Midland Montagu in London and then as a project economist for the Caribbean Development Bank in Barbados. In 1993, he moved back to Guernsey to help develop investment-related business for the Bachmann Group and in 2002 he led a management buy-out which saw Asset Risk Consultants Limited become an independent business. A Chartered Fellow of the Chartered Institute for Securities and Investment, he has been on the Board of the Company for over 10 years. He is also currently a non-executive director of a number of investment and asset management companies including BH Global Limited and Volta Finance Limited.

JOHN HALLAM

CHAIRMAN OF THE AUDIT COMMITTEE
(GUERNSEY RESIDENT)

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

SALLY-ANN FARNON

(KNOWN AS SUSIE) DIRECTOR
(APPOINTED 20 FEBRUARY 2018) (GUERNSEY RESIDENT)

Mrs Farnon is a Fellow of the Institute of Chartered Accountants in England and Wales and qualified as an accountant in 1983. She is a former Banking and Finance partner of KPMG Channel Islands from 1990 until 2001 and head of the Channel Island Audit Practice from 1999. She has served as President of the Guernsey Society of Chartered and Certified Accountants and as a member of the States of Guernsey Audit Commission and as Vice-Chairman of the Guernsey Financial Services Commission. Susie is a Non-Executive Director of a number of property and investment companies listed on the London Stock Exchange or elsewhere, and is a board member of the Association of Investment Companies.

All Directors are independent of the Investment Manager and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

DIRECTORS' REPORT

General Information
The Company was incorporated in Guernsey on 6 September 2005 with registered number 43634.

The "About the Company" section of the Annual Report on page 4 provides information regarding the structure of the Company, the investment objective and the listing details of the Shares of the Company.

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

Principal Activity and Business Review
The principal activity of the Company during the year was that of an investment company investing in Real Estate Credit Investments. For full details of the investment policy of the Company see page 4.

The Placing Programme ("Placing") announced on 23 February 2017 was approved at an Extraordinary General Meeting of the Company on 23 March 2017. The Placing was intended to enable the Company to raise additional capital through the issue of up to 65 million new Ordinary Shares before expiry on 22 February 2018, with net proceeds to be used to acquire investments in accordance with the investment objective and policy. On 15 December 2017 the Company successfully completed and closed the Placing with all 65 million new Ordinary Shares issued. A tap issue was also completed on the same date with an issue of 1,564,488 Ordinary Shares, gross proceeds £2.6 million. During the year ended 31 March 2018 a total of 51,017,875 new Ordinary Shares were issued under the Placing with total gross proceeds of £84.7 million (15,546,613 new Ordinary Shares were issued in the prior financial year under the Placing with gross proceeds of £25.3 million).

Results and Dividends
The results for the year and the Company's financial position at the end of the year are shown on pages 39 and 40. Dividends totalling £13,723,895 (31 March 2017: £8,446,946) were paid on the Ordinary Shares during the year. Preference Share Coupons of £1,551,425 were paid (31 March 2017: £3,354,434) prior to the redemption and the payment of accrued interest of all Preference Shares on 18 September 2017.

A fourth interim dividend for the year ended 31 March 2018 of 3.0p per Ordinary Share (31 March 2017: 3.0p per share) was approved by the Directors on 14 June 2018, this has not been included as a liability in these financial statements.

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

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

On 16 September 2017, the Company redeemed all of its 41,930,419 Preference Shares at a total value, including the accrued interest up to redemption, of £42.6 million and cancelled the 3,032,415 Preference Shares which were held in Treasury. The listing of the Preference Shares, on the Official List of the UK Listing Authority, was cancelled on 18 September 2017 and trading in them on the Main Market of the London Stock Exchange plc ceased on the same date.

No person has any special rights of control over the Company's share capital.

DIRECTORS' REPORT CONTINUED

The Directors of the Company who served during the year were:

Directors
Bob Cowdell
(Chairman)
John Hallam
Graham Harrison
Sarah Evans
(resigned 3 January 2018)
Susie Farnon
(appointed 20 February 2018)

The following summarises the Directors' directorships in other public companies listed on the London Stock Exchange:

Director	Company Name
Bob Cowdell	Schroder UK Growth Fund Plc
John Hallam	BH Global Ltd NB Distressed Debt Investment Fund Limited
Graham Harrison	BH Global Ltd Volta Finance Limited
Susie Farnon	Apax Global Alpha Limited BH Global Ltd Breedon Group PLC (AIM) HICL Infrastructure Fund Limited Standard Life Investment Property & Income Trust

Mr Hallam, Mr Harrison and Mrs Farnon are on the board of BH Global Limited, but the Company believes that this does not impact their ability to be considered independent. Mr Hallam intends to resign from the board of BH Global Limited on 30 September 2018. All Directors are independent of the Investment Manager and free from any business or other relationship that would materially interfere with the exercise of their independence.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Incorporation (the "Articles") and The Companies (Guernsey) Law 2008. The Articles themselves may be amended by special resolution of the Shareholders. The powers of Directors are described in the Articles and in these financial statements in the Corporate Governance Statement. Under its Articles, the Company has authority to issue an unlimited number of Ordinary Shares of no par value.

The Directors' interests (number of Ordinary Shares) in the share capital of the Company at 31 March 2018 (some of which are held directly or by entities in which the Directors may have a beneficial interest) were:

	Number of Ordinary Shares	% of Company
Bob Cowdell (Chairman)	45,000	0.03
John Hallam	40,000	0.03
Graham Harrison	25,000	0.02

Substantial Interests in Share Capital
Chapter 5 of the Disclosure and Transparency Rules, requires disclosure of major shareholder acquisitions or disposals (over 5% of the shares) in the Company (see list below of major shareholders). During the year there were 17 notifications of such transactions, (year ended 31 March 2017: four notifications).

List of major Ordinary Shareholders as at 31 March 2018:

Name	Total Ordinary Shares Held	% Ordinary Shares Held
Canaccord Genuity Wealth Management	12,124,266	8.70%
Premier Asset Managers	11,884,111	8.53%
Close Brothers Asset Management	10,720,000	7.69%
UBS Wealth Management AG	9,537,159	6.84%
Fidelity Worldwide Investment (FIL)	9,437,329	6.77%
Standard Life Aberdeen plc	8,655,883	6.21%
AXA Investment Managers UK	7,650,000	5.49%

Issued Share Capital
The issued share capital of the Company consists of 139,382,984 Ordinary Shares (31 March 2017: 130,295,528 shares, made up of 88,365,109 Ordinary Shares and 41,930,419 Preference Shares).

Directors and Officers Liability Insurance
Directors and Officers liability insurance is in place and due for renewal on 30 June 2018.

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

Website
The Directors are responsible for the maintenance and integrity of the financial and corporate information included on the Company's website.

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

Auditor
Deloitte LLP has been the Company's external auditor since the Company's incorporation. Further information on the work of the auditor is set out in the Audit Committee Report. The Company has undertaken an audit tender process the result of which will be announced shortly. The successful candidate will be proposed for reappointment at the next AGM.

The Audit Committee reviews the appointment of the auditor.

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

Related Party Transactions
Related party transactions are disclosed in Note 17 of these financial statements. There have been no material changes in the related party transactions described in the last Annual Report.

Going Concern
The Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements as, after due consideration, they consider that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Directors consider that the cash resources available at 31 March 2018 of £7.2 million, together with the cash held at the broker of £2.4 million, and the financing available through activities such as repurchase agreements sufficient to cover normal operational costs and current liabilities, including the proposed dividend, as they fall due for the foreseeable future.

Annual General Meeting ("AGM")
The AGM of the Company will be held at 11.00 am on 18 September 2018. Details of the resolutions to be proposed at the AGM, together with explanations, will appear in the Notice of Meeting to be distributed to Shareholders together with a copy of this Annual Report.

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

On behalf of the Board on 14 June 2018

Bob Cowdell
Chairman

John Hallam
Director

DIRECTORS' REMUNERATION REPORT

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

Each of the Directors has signed a letter of appointment with the Company setting out the terms of their appointment.

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

Directors' annual fees are listed in the table to the right:

	2018/2017 GBP	2017/2016 GBP
Bob Cowdell (Chairman)	75,000	60,000
John Hallam (Audit Committee Chairman)	45,000	35,000
Graham Harrison	35,000	30,000
Sarah Evans (resigned 3 January 2018)	35,000	30,000
Susie Farnon (appointed 20 February 2018)	35,000	–
	225,000	**155,000**

The Directors' fees increased with effect from 1 October 2017.

Directors' remuneration for the year ended 31 March 2018 and 31 March 2017 was as follows:

	Year ended 31 Mar 2018 GBP	Year ended 31 Mar 2017[1] GBP
Bob Cowdell (Chairman)	67,500	70,000
John Hallam	40,000	37,681
Graham Harrison	32,500	35,000
Sarah Evans (resigned 3 January 2018)	23,750	27,500
Mark Burton (resigned 1 July 2016)	–	7,500
Christopher Spencer (retired 16 September 2016)	–	16,240
Susie Farnon (appointed 20 February 2018)	3,889	–
Total Directors' remuneration	**167,639**	**193,921**

1 Directors' remuneration for the year ended 31 March 2017 includes a transaction fee of £10,000 for the Chairman and £5,000 each for the other Directors in relation to the Placing Programme.

CORPORATE GOVERNANCE STATEMENT

Statement of Compliance with Corporate Governance

To comply with the UK Listing Regime, the Company must comply with the requirements of the UK Corporate Governance Code. The Company is also required to comply with the Code of Corporate Governance issued by the Guernsey Financial Services Commission.

The Company is a member of the Association of Investment Companies (the "AIC") and by complying with the AIC Code of Corporate Governance ("AIC Code") is deemed to comply with both the UK and Guernsey Codes of Corporate Governance.

The Board has considered the principles and recommendations of the AIC Code, by reference to the guidance notes provided by the AIC Guide, and considers that reporting against these will provide appropriate information to shareholders. To ensure ongoing compliance with these principles the Board reviews a report from the Corporate Secretary identifying how the Company is in compliance and identifying any changes that might be necessary.

The Company has complied with the recommendations of the AIC Code throughout the accounting period and thus the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to:

- the role of the Chief Executive;
- Executive Directors' remuneration;
- the Remuneration Committee; and
- the whistle-blowing policy.

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers some of these provisions are not relevant to the position of the Company as it is an externally managed investment company. The Directors are non-executive and the Company does not have employees, hence no remuneration committee or whistle-blowing policy is required. The key service providers all have whistle-blowing policies in place. The Board as a whole had fulfilled the function of the Management Engagement Committee, prior to that Committee's establishment on 22 March 2017.

The Board

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

The Board meets at least four times a year and, in addition, there is regular contact between the Board, the Investment Manager and the Company Secretary, including an annual strategy meeting and Investment Manager due diligence visits, when the Board attends the offices of the Investment Manager and meets with senior executives. Further, the Board requires that it is supplied in a timely manner with information by the Investment Manager, the Company Secretary and other advisers in a form and of a quality appropriate to enable it to discharge its duties.

Duties and Responsibilities

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

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

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

The following table shows the number of regularly scheduled meetings held by the Board and each Committee for the year ended 31 March 2018 as well as the number of attendances at each meeting.

	Scheduled Board Meetings Attendance	Nomination Committee Meeting Attendance	Audit Committee Meeting Attendance	Management Engagement Committee Meeting Attendance
Number of meetings	4	2	3	1
Attendance by:				
Bob Cowdell (Chairman)	4	2	3	1
John Hallam	4	2	3	1
Graham Harrison	4	2	3	1
Sarah Evans (resigned 3 January 2018)	3	2	2	1
Susie Farnon (appointed 20 February 2018)	N/A	N/A	N/A	N/A

CORPORATE GOVERNANCE STATEMENT CONTINUED

Additionally, a number of ad-hoc meetings were held during the year which, as they dealt primarily with administrative matters, were attended by those Directors available at the time.

Chairman
The Chairman, Mr Cowdell, is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. The Chairman is also responsible for ensuring that the Directors receive accurate, timely and clear information. The Chairman is responsible for effective communication with Shareholders and can be contacted through the Company Secretary.

Senior Independent Director ("SID")
Mr Harrison is the SID and, as such, his primary roles are to support the Chairman and act as an intermediary for the other Non-Executive Directors in matters relating to the Chairman including leading them in the annual performance evaluation of the Chairman. The SID is also available to shareholders who may have any concerns which contact through the normal channels of the Chairman and AIFM has failed to resolve or for which such contact is inappropriate. Mr Harrison can also be contacted through the Company Secretary.

Board Independence
For the purposes of assessing compliance with the AIC Code Principles 1 and 2, the Board considers whether the current Directors are independent of the Investment Manager and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. In making this assessment, consideration is also given to all other factors which might be relevant, including length of service. The Board has concluded that all Directors remain independent.

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

Audit Committee
The Audit Committee is chaired by Mr Hallam; and Mr Cowdell, Mr Harrison and Mrs Farnon are also members, as was Mrs Evans during the period she served as a Director. Mrs Farnon joined the Audit Committee on 20 February 2018. The terms of reference of the Audit Committee state that it will meet not less than three times in each financial year. The Audit Committee Report on pages 28 to 30 sets out the role and activities of this Committee and its relationship with the external auditor.

Nomination Committee
The Nomination Committee is chaired by Mr Cowdell and its other members are Mr Hallam, Mr Harrison and Mrs Farnon, with Mrs Evans also serving up until her resignation. Mrs Farnon was appointed to the Nomination Committee on 20 February 2018. The members of the Nomination Committee are and will be independent Directors. The terms of reference state that the Nomination Committee will meet not less than once a year; will have responsibility for considering the size, structure and composition of the Board; and retirements and appointments of additional and replacement Directors; consideration of Board remuneration; and that the Nomination Committee will make appropriate recommendations to the Board.

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

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

The performance of the Chairman of the Board will be assessed by the Senior Independent Director through discussions with the other Directors.

Management Engagement Committee
The Management Engagement Committee was constituted on 22 March 2017 and chaired by Mrs Evans until her resignation and is now chaired by Mr Cowdell with its other members being Mr Hallam, Mr Harrison and Mrs Farnon. The Committee will meet at least once a year for the purpose of evaluating the performance of the Company's service providers, the review of service agreements and service level statements and the level and method of their remuneration.

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

The Board regards all Directors as being independent. The Board has adopted a policy whereby all Directors will be proposed for re-election each year and so all Directors will be proposed for re-election at the forthcoming AGM.

Internal Controls

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

In compliance with principle 15 of the AIC Code, the Board regularly reviews the effectiveness of the Company's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from the Investment Manager in order to consider whether all significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. To this end a Risk Matrix is maintained, which identifies the significant risks faced by the Company together with the controls intended to manage them and is reviewed at each scheduled Board meeting. The Board has also performed a specific assessment considering all significant aspects of internal control arising during the year covered by this report. The Audit Committee assists the Board in discharging its review responsibilities.

During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

While investment management is provided by Cheyne Capital Management (UK) LLP, the Board is responsible for setting the overall investment policy and monitors the actions of the Investment Manager at regular Board meetings. Administration and company secretarial services are provided by State Street (Guernsey) Limited. Regular compliance reports from both the Investment Manager and the Administrator are received by the Board. In addition, the Administrator makes available its Global Fund Accounting and Custody Controls Examination, SOC1 report to the Board on an annual basis.

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

The Investment Manager has established an internal control framework and reviews the segregation of duties within this to ensure that control functions are segregated from the trading and investing functions. As a part of this framework the valuation of financial instruments is overseen by an internal pricing committee which is supported by resources which ensure that it is able to function at an appropriate level of quality and effectiveness.

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

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

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

Shareholder Engagement

The Board believes that the maintenance of good relations with shareholders is important for the long-term prospects of the Company and seeks engagement with investors. Where appropriate, the Chairman, and other Directors are available for discussion about governance and strategy with major shareholders and the Chairman ensures communication of shareholders' views to the Board. The Board receives feedback on the views of shareholders from Liberum Capital Limited (the "Corporate Broker") and the Investment Manager, and shareholders are welcome to contact the Directors at any time via the Company Secretary.

The Directors believe that the AGM provides an appropriate forum for shareholders to communicate

CORPORATE GOVERNANCE STATEMENT CONTINUED

with the Board and encourages participation. There is an opportunity for individual shareholders to question the Chairmen of the Board and the Audit Committee at the AGM. The Board assesses the results of AGMs considering whether the number of votes against or withheld in respect of resolutions are such as to require discussion in the subsequent Annual Report.

Corporate Social Responsibility

The Board keeps under review developments involving social and environmental issues, and will report on those to the extent they are considered relevant to the Company's operations.

UK Criminal Finances Act 2017

In respect of the UK Criminal Finances Act 2017 which has introduced a new Corporate Criminal Offence of "failing to take reasonable steps to prevent the facilitation of tax evasion", the Board confirms that it is committed to zero tolerance towards the criminal facilitation of tax evasion.

GDPR

The Board confirms that the Company has considered GDPR and taken measures itself and with its service providers, to meet the requirements of GDPR and equivalent Guernsey law. See the GDPR Privacy Notice disclosure on page 5.

Anti-Bribery and Corruption Policy

The Board has adopted a formal Anti-bribery and Corruption Policy. The policy applies to the Company and to each of its Directors. Furthermore, the policy is shared with each of the Company's main service providers.

Whistle Blowing

As the Company has no employees of its own it does not have a whistle blowing policy but in its review of service providers the Management Engagement Committee ensures that they do.

Employees and Socially Responsible Investment

The Company has a management contract with the Investment Manager. It has no employees and all of its Directors are non-executive, with day-to-day activities being carried out by third parties. There are therefore no disclosures to be made in respect of employees.

The Company's main activities are carried out by the Investment Manager who was one of the initial signatories to the Standards Board for Alternative Investments (formerly known as the Hedge Fund Standards Board) and is a signatory to the United Nations-supported Principles for Responsible Investment ("PRI").

Gender Metrics

The Board has chosen not to adopt a definitive policy with quantitative targets for Board diversity. However, gender, knowledge, skills, experience, residency and governance credentials are all considered by the Nominations Committee when recommending appointments to the Board and in formulating succession plans.

Principal Risks and Uncertainties

The Board has carried out a robust assessment to identify the principal risks that could affect the Company, including those that would threaten its business model, future performance, solvency or liquidity. It has adopted a controls based approach to its risk monitoring, requiring each of the relevant service providers, including the Investment Manager, to establish the necessary controls to ensure that all known risks are monitored and controlled in accordance with agreed procedures. The Directors receive periodic updates at their Board meetings on key risks and have adopted their own control review to ensure, where possible, risks are monitored appropriately.

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

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

The Company's Principal Risks are discussed in the Strategic Report of these financial statements and in the Company's Prospectus, available on the Company's website (www.recreditinvest.com) while those specifically relating to financial reporting are discussed in the Audit Committee Report and Note 14.

Changes in Regulation

The Board monitors and responds to changes in regulation as it impacts the Company and its policies.

AUDIT COMMITTEE REPORT

Dear Shareholder,

On the following pages, we present the Audit Committee's Report for 2018, setting out the responsibilities of the Audit Committee and its key activities during the year ended 31 March 2018. As in previous years, the Audit Committee has reviewed the Company's financial reporting, the independence and effectiveness of the Independent Auditor and the internal control and risk management systems of the Company's service providers. In order to assist the Audit Committee in discharging these responsibilities, regular reports are received and reviewed from the Manager, Administrator and Independent Auditor. The Company has undertaken an audit tender process, the result of which will be announced shortly. The successful candidate will be proposed for reappointment at the next AGM.

A member of the Audit Committee will be available at each Annual General Meeting to respond to any shareholder questions on the activities of the Audit Committee.

John Hallam
Chairman of the Audit Committee

Membership of the Audit Committee
The Audit Committee is chaired by Mr Hallam. The other members of the Committee are Mr Cowdell, Mr Harrison and Mrs Farnon, as was Mrs Evans during the period she served as a Director. The FRC Guidance on Audit Committees recommends that such a committee should comprise solely of independent Non-Executive Directors and, as noted in the Corporate Governance Statement, the Board has considered the independence of its members and has concluded that they all remain independent. The Company Chairman currently serves as a member of the Audit Committee. The Board is mindful of the AIC guidance on this matter and notes that the Chairman was considered independent on his appointment and is considered to remain so, but believes that in view of the changes to its own composition this is appropriate at the present time. The terms of reference state that the Audit Committee will meet not less than three times in the year and meet the external auditors three times a year, on which occasions the need to meet without representatives of either the Investment Manager or the Administrator being present is considered. The terms of reference include all matters indicated in the Disclosure and Transparency Rule 7.1 and the AIC Code.

The Board has taken note of the requirement that at least one member of the Committee should have recent and relevant financial experience and is satisfied that the Committee is properly constituted in that respect, with all members being highly experienced and Mr Hallam and Mrs Farnon being chartered accountants who also sit on other audit committees.

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

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

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

AUDIT COMMITTEE REPORT CONTINUED

Meetings
The Audit Committee meets at least three times annually, including shortly before the Board meets to consider the Company's half-yearly and annual financial reports, and reports to the Board on its deliberations and recommendations. It also has an annual planning meeting with the Auditor and other ad hoc meetings as considered necessary.

The Audit Committee operates within clearly defined terms of reference and provides a forum through which the Company's external auditors report to the Board. The terms of reference of the Audit Committee are available from the Company's registered office. The Audit Committee receives information from the Company's service providers with the majority of information being directly sourced from the Secretary, Administrator, the Investment Manager and the external auditors. The Audit Committee considers the nature, scope and results of the Auditor's work and reviews their performance annually prior to providing a recommendation to the Board on the reappointment or removal of the Auditor.

Significant Issues Considered Over Financial Reporting
The Audit Committee has determined that the key risks of misstatement of the Company's Financial Statements relate to the judgments in respect of the fair value of the Company's portfolio and income recognition.

Additional information regarding principal risks and uncertainties is provided in the Strategic Report and in Note 14.

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

Valuation of Portfolios
The Audit Committee conducted a detailed review of each loan position through discussions with the AIFM's relevant individual asset managers challenging them as appropriate. Such discussions covered aspect such as:

- Available and recent professional valuations
- Credit quality of the individual borrower
- Quality of the underlying collateral
- Status of development schedules compared to original plans
- Planning or other disputes
- Comparison between effective and actual yields
- Whether or not any value should be ascribed to contingent fees and potential profit participations provided for in contractual arrangements

When considering the bond investments the Audit Committee considered a number of factors including, but not restricted to:

- Pricing sources
- Comparison between effective and actual yields
- Depth of prices and any disparity between different marks
- Indicative liquidity
- Comparison of realised prices with previous valuations

Having conducted this process the Committee concluded that any assumptions used were reasonable and that the valuations were in accordance with the applicable standards

Income Recognition
The Audit Committee and the Board as a whole considered and challenged the Investment Manager's expected realisation or maturity dates and the resultant expected cash flows. The Committee found that the assumptions used were reasonable and that whilst it is possible that the expected realisation dates may change over time the Committee and the Board are satisfied that the assumed realisation dates and the Investment Manager's methods of calculating income are reasonable and in line with International Financial Reporting Standards ("IFRS").

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

Internal Audit
The Committee considers at least once a year whether or not there is a need for an internal audit function. Currently the Committee believes that, given the Company has no employees, the SOC1 internal control report provided by the Administrator and the reporting provided by the Investment Manager are sufficient and has made a recommendation to the Board to this effect.

External Audit

Deloitte LLP has been the Company's external Auditor since the Company's inception.

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

When evaluating the external Auditor, the Committee has regard to a variety of criteria including industry experience, independence, reasonableness of audit plan, ability to deliver constructive criticism, effectiveness of communication with the Board and the Company's service providers, quality control procedures, management of audit process, price and added value beyond assurance in audit opinion.

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

- review and challenge of key decisions by the Quality Review Partner and engagement quality control review by a member of the Independent Professional Standard Review Team.

The Audit Committee has considered the need for putting the audit out to tender and has undertaken such a process, in respect of the financial years commencing after 1 April 2018. The result of this will be announced shortly.

The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor, with particular regard to the level of non-audit fees. During the year Deloitte charged non-audit fees of £60,000 for work performed on the Placing Programme and £28,000 for the 30 September 2017 interim review.

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

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

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

To assess the effectiveness of the Auditor and the audit process, the Committee reviews:

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

The Audit Committee was satisfied with the audit process and Deloitte LLP's effectiveness and independence as an Auditor having considered the degree of diligence and professional scepticism demonstrated by them.

On behalf of the Audit Committee

John Hallam
Chairman of the Audit Committee
14 June 2018

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law 2008.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We confirm that to the best of our knowledge:

i. The financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
ii. The Chairman's Statement, the Strategic Report and the Investment Manager's Report include a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties they face; and
iii. So far as each Director is aware, there is no relevant audit information of which the Company's Auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 249 of the Companies (Guernsey) Law 2008 (as amended).

Responsibility Statement of the Directors in Respect of the Annual Report Under the Corporate Governance Code

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

By order of the Board

Bob Cowdell
Chairman
14 June 2018

John Hallam
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REAL ESTATE CREDIT INVESTMENTS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- **give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its profit for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standard Board (IASB); and**
- **have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.**

We have audited the financial statements of Real Estate Credit Investments Limited (the 'Company') which comprise:

- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Cash Flows;
- the Statement of Changes in Equity; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as issued by the IASB.

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 Financial Reporting Council's (FRC's) Ethical Standard as applied to listed 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.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of loans investments • Interest income recognised from investments Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with
Materiality	The materiality that we used in the current year was £4.55 million, based on 2% of 31 December 2017 Net Asset Value.
Scoping	All audit work for the Company was performed directly by the audit engagement team.
Significant changes in our approach	There has been no significant changes in our approach from the prior year.

Conclusions relating to going concern, principal risks and viability statement

Going concern We have reviewed the directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**
Principal risks and viability statement Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: • the disclosures on pages 10–11 that describe the principal risks and explain how they are being managed or mitigated; • the directors' confirmation on page 24 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity; or • the directors' explanation on page 10 as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

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) that we identified. These matters included 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.

We have split the investment valuation key audit matter this year into two separate audit matters being bond investment and loan investment valuations as we pinpointed the key audit matter to the loan investment valuations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REAL ESTATE CREDIT INVESTMENTS LIMITED

Report on the audit of the financial statements

Valuation of loan investments

Key audit matter description	Investments in Loans of £148 million (31 March 2017: £109 million) make up 59% of total assets and are the key value driver for the Company's Net Asset Value (NAV) and interest income. There is a fraud risk of incorrect recognition and measurement criteria applied to loan investments through complex structures. Further any material movement in the performance in the underlying structures or market movements could have a significant impact on the fair value assumptions applied. Judgements over the credit quality of the borrower and underlying collateral along with the valuation of the equity participation positions in certain loans, which impact fair value estimates could significantly affect key performance indicators and the fair value of Company's Equity portion in the underlying loans where applicable. The accounting policies related to this key audit matter can be found in Notes 2, 3, 9 and 14 to the financial statements and in the Audit Committee Report on page 29.
How the scope of our audit responded to the key audit matter	Our procedures included: • evaluating the design and implementation of the existing control procedures related to the loan investments valuation process. This includes testing, on a sample basis, inputs used in 31 March 2018 'Loan Surveillance Reports', including the accuracy of covenants; • calculations, Loan to Value ratios, valuation of the underlying collateral and other financial & non-financial information; • reviewing the 31 March 2018 loan surveillance reports to identify any evidence of fair value changes including whether the loans are not performing, any covenant breaches, delinquency in contractual payments or signs of financial distress by the borrower; • where indicators of fair value changes have been identified, challenging the assumptions made by Cheyne in assessing whether the loans are properly valued at the balance sheet date; • where actual fair value changes have been identified, challenging the assumptions made by Cheyne in respect of the valuation of the loans in light of available evidence and underlying collateral; • performing back testing by verifying proceeds received from loans repayment, both during the year and subsequent to 31 March 2018, against their fair value prior to the repayment; • challenging Cheyne's assessment of any equity uplifts with reference to the valuation and performance of underlying collateral; and • reviewing the developments in the lending and real estate markets at a macro level to assess changes in lending rates and potential changes in collateral values.
Key observations	Based on our audit work, we are satisfied that the key assumptions, judgements and estimates applied by the management to the fair value of loans are appropriate.

Interest income recognised from investments

Key audit matter description	The portfolios' expected utilisation or maturity profile and expected cash flows are key inputs in arriving at the effective interest rate used to recognise interest income over the expected life of the portfolio, and these judgements may have a significant impact on the level of the interest income recorded in the year of £18.2 million (31 March 2017: £15.3 million). The accounting policies related to this key audit matter can be found in Note 2, disclosure interest income in Note 6 and on page 27 of the Audit Committee Report.
How the scope of our audit responded to the key audit	Our procedures included: • evaluating the design and implementation of the existing control; • procedures that are related directly to the key audit matter; • challenging management's judgements in respect of the estimated • matter contractual cash flows through examination of the amortisation schedules on a sample basis, including the expected realisation date by position; • for new investments acquired, recalculating the effective interest rate on a sample basis, which includes making enquiries with Cheyne on the assumptions used against the details of the underlying positions; • for existing investments, recalculating interest income on a sample basis using effective interest rate determined on the date acquired; • challenging the effective interest rate models for the existing investments on a sample basis, by back testing the expected future cash flows at the time of loan initiation with the subsequent actual cash flows; and • on a sample selected, tracing the income earned on investments to the bank statements.
Key observations	Based on our audit work, we are satisfied that the key assumptions applied by the management in calculating the Interest income from the Investments are appropriate.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REAL ESTATE CREDIT INVESTMENTS LIMITED

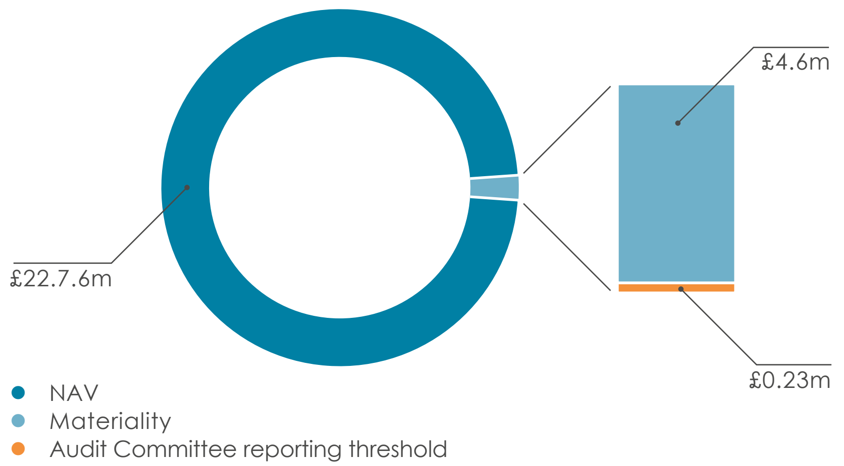
Report on the audit of the financial statements continued

Our application of materiality

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

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£4.6 million (31 March 2017: £3.7 million)
Basis for determining materiality	2% of the total Net Asset Value of the Company as at 31 December 2017.
Rationale for the benchmark applied	We believe Net Asset Value is the most appropriate benchmark as it is considered to be one of the principal considerations for members of the Company in assessing the financial performance and represents total shareholders' interest.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £227,500 (31 March 2017: £74,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and 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.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REAL ESTATE CREDIT INVESTMENTS LIMITED

Report on the audit of the financial statements continued

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

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

Use of our report

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

Report on other legal and regulatory requirements

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Other matters

Auditor tenure

We have nothing to report in respect of these matters.

We were appointed by the Board of Directors on 28 April 2005 to audit the financial statements of Queen's Walk Investment Limited (the previous name of Real Estate Credit Investments Limited) for the period from incorporation ending 31 March 2006 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 13 years, covering the period/years ending 31 March 2006 to 31 March 2018.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

David Becker
For and on behalf of Deloitte LLP
Recognised Auditor
St Peter Port, Guernsey
14 June 2018

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2018

	Note	31 Mar 2018 GBP	31 Mar 2017 GBP
Interest income	6	18,413,836	15,288,890
Net gains on financial assets and liabilities at fair value through profit or loss	4	2,173,787	461,095
Operating income		20,587,623	15,749,985
Operating expenses	5	(3,741,454)	(3,226,188)
Profit before finance costs		16,846,169	12,523,797
Finance costs	6	(1,911,444)	(3,444,325)
Net profit		**14,934,725**	**9,079,472**
Earnings per Ordinary Share			
Basic and diluted	8	13.0p	12.0p
Weighted average Ordinary Shares outstanding		**Number**	**Number**
Basic and diluted	8	114,467,195	73,401,340

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

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

STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Note	31 Mar 2018 GBP	31 Mar 2017 GBP
Non-current assets			
Investments at fair value through profit or loss	9	245,357,431	159,046,597
Current assets		245,357,431	159,046,597
Cash and cash equivalents	9	7,222,978	24,931,855
Cash collateral at broker	9,16	2,363,392	–
Derivative financial assets	9,10	183,783	887,000
Receivable for investments sold	2, 9	48,135,675	–
Other assets	9,11	4,894,429	4,405,924
		62,800,257	30,224,779
Total assets		**308,157,688**	**189,271,376**
Equity and liabilities			
Equity			
Reserves		228,523,912	144,250,918
		228,523,912	144,250,918
Current liabilities			
Financing agreements	2	78,338,718	–
Cash collateral due to broker	9	–	390,000
Preference Shares	13	–	41,930,419
Other liabilities	9,12	1,295,058	2,700,039
Total liabilities		79,633,776	45,020,458
Total equity and liabilities		**308,157,688**	**189,271,376**
Shares outstanding	13	139,382,984	88,365,109
Net Asset Value per share		£1.64	£1.63

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

Signed on behalf of the Board of Directors by:

Bob Cowdell
Chairman
14 June 2018

John Hallam
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2018

	Note	31 Mar 2018 GBP
Balance at 31 March 2017		**144,250,918**
Net profit for the year		14,934,725
Issue of Ordinary Shares of the Company	13	83,062,164
Ordinary Share dividends	7	(13,723,895)
Balance at 31 March 2018		**228,523,912**

For the year ended 31 March 2017

	Note	31 Mar 2017 GBP
Balance at 31 March 2016		**118,821,280**
Net profit for the year		9,079,472
Issue of Ordinary Shares of the Company	13	24,797,112
Ordinary Share dividends	7	(8,446,946)
Balance at 31 March 2017		**144,250,918**

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

STATEMENT OF CASH FLOWS

For the year ended 31 March 2018

	31 Mar 2018 GBP	31 Mar 2017 GBP
Profit before finance costs	16,846,169	12,523,797
Movement in investments and liabilities at fair value through profit or loss	(161,360)	(503,710)
(Purchases of)/proceeds from sale of investments	(134,526,097)	(5,744,812)
Movement in financial derivative instruments	703,217	1,783,988
Operating cash flows before movement in working capital	**(117,138,071)**	**8,059,263**
(Increase) in receivables	(488,505)	(1,878,165)
(Decrease)/increase in payables	(1,404,981)	19,357
Movement in cash held by/due to broker	(2,753,392)	390,000
Movement in working capital	**(4,646,878)**	**(1,468,808)**
Net cash (outflow)/inflow from operating activities	**(121,784,949)**	**6,590,455**
Financing activities		
Ordinary Shares issued	83,062,164	24,797,112
Distributions paid to Ordinary Shareholders	(13,723,895)	(8,446,946)
Preference coupon paid	(1,551,425)	(3,354,434)
Redemption of Preference Shares	(41,930,419)	–
Net drawing under financing agreement and the related finance charges	78,219,647	–
Net cash inflow from financing activities	**104,076,072**	**12,995,732**
Net (decrease)/increase in cash and cash equivalents	(17,708,877)	19,586,187
Cash and cash equivalents at the start of the year	24,931,855	5,345,668
Cash and cash equivalents at end of year	**7,222,978**	**24,931,855**

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

1. General information

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

The Company is a non-cellular company, having converted from a protected cell company called Real Estate Credit Investments PCC Limited on 25 October 2016. The Company is regulated as an authorised, closed-ended investment scheme by the Guernsey Financial Services Commission ("GFSC").

The Company invests in real estate debt secured by commercial or residential properties in Western Europe, focusing primarily on the United Kingdom, France and Germany, countries where it sees the changing dynamics in the real estate debt market offering a sustainable deal flow for the foreseeable future. The Company has adopted a long term strategic approach to investing and focuses on identifying value in real estate debt. In making these investments the Company uses the expertise and knowledge of its Alternative Investment Fund Manager ("AIFM"), Cheyne Capital Management (UK) LLP ("Cheyne" or the "Investment Manager").

The Ordinary Shares are currently listed on the premium segment of the Official List of the UK Listing Authority and trade on the Main Market of the London Stock Exchange plc. Ordinary Shares offer investors a levered exposure to a portfolio of Real Estate Credit Investments and aim to pay a quarterly dividend. On 16 September 2017, the Company redeemed all of its 41,930,419 Preference Shares at a total value, including the accrued interest up to redemption, of £42.6 million and cancelled the 3,032,415 Preference Shares which were held in Treasury. The listing of the Preference Shares on the Official List of the UK Listing Authority was cancelled on 18 September 2017 and trading in them on the Main Market of the London Stock Exchange plc ceased on the same date.

The Company continued to fulfil its obligations towards the Preference Shareholders with respect to the payment of Preference Dividends until the Preference Share redemption in September 2017.

The investment strategy of the Company focuses on secured residential and commercial debt in the United Kingdom, France and Germany.

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

State Street (Guernsey) Limited is the Administrator and provides all administration and secretarial services to the Company in this capacity. State Street Custody Services (Guernsey) Limited is the Depositary and undertakes the custody of assets.

2. Significant accounting policies

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect, together with applicable legal and regulatory requirements of Guernsey Law and the Listing Rules of the UK Listing Authority. The same accounting policies, presentation and methods of computation have been followed in these financial statements as were applied in the preparation of the Company's audited financial statements for the year ended 31 March 2017.

2. Significant accounting policies continued

New standards, amendments and interpretations issued and effective for the financial year beginning 1 January 2017

IAS 7 "Statement of Cash flows" amendment was issued in January 2016 and becomes effective for periods beginning 1 January 2017. The amendment requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including non-cash changes and changes arising from cash flows. This amendment does not have any impact on the Company's financial position or performance but has resulted in extra disclosures.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2017 and not early adopted

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" addresses the classification, measurement and derecognition of financial assets and liabilities. It replaces the multiple classification and measurement models in IAS 39 and is effective for reporting periods beginning on or after 1 January 2018. Whilst we have not adopted this standard in this set of financial statements as it is not yet effective for the Company we have outlined below how we plan on adopting this standard in the next financial year and the impact that it may have on the financial statements.

Key requirements of IFRS 9

Classification and measurement of financial assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristic of those financial assets.

There are three principal classification categories for financial assets that are debt instruments: (i) amortised cost; (ii) fair value through other comprehensive income; and (iii) fair value through profit and loss. Equity investments under IFRS 9 are measured at fair value with gains and losses recognised in profit or loss unless an irrevocable election is made to recognise gains or losses in other comprehensive income.

IFRS 9 also introduces a new expected credit loss impairment model, as opposed to the incurred credit loss model currently implemented under IAS 39. This requires entities to account for expected credit losses at initial recognition and changes to expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

Finally, under IFRS 9 greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. Enhanced discloser requirements about an entity's risk management activities have also been introduced.

Impact of IFRS 9 – Classification and measurement

Based on an analysis of the financial assets and liabilities as at 31 March 2018, the Directors have assessed the impact of IFRS 9 to the Company's financial statements as follows:

Loan investments are not held solely for the receipt of principal and interest as these positions are exposed to changes in cash flows which may not be considered part of basic lending arrangement as per IFRS 9.B4.1.7A. As such, these investments will continue to be measured at fair value through profit and loss upon the application of IFRS 9.

Bond investments and financing agreements are not held within a business model whose objective is to solely hold the assets in order to collect contractual cash flows as they are actively managed by the investment manager. As such, these items are expected to continue to be held at fair value through profit and loss upon the application of IFRS 9.

Other receivables and payables are held solely for the collections and payments of contractual cash flows, being payments of principal and interest where applicable. As such, these assets and liabilities will continue to be held at amortised cost under IFRS 9.

Impact of IFRS 9 – Impairment

As all of the Company's investments are classified as fair value through profit and loss, it is expected that IFRS 9 will have no material impact.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2018

2. Significant accounting policies continued

Impact of IFRS 9 – Hedge Accounting

The Company has not used any hedge accounting during the year ended on 31 March 2018 although exposure is monitored on a regular basis and the Board reviews this approach quarterly. As a result, unless there is a change in approach, it is expected that IFRS 9 will have no impact.

Overall Impact of IFRS 9

Overall the Directors do not expect the implementation of IFRS 9 to have a material impact on the financial statements.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 was published in May 2016 and specifies how and when to recognise revenue as well as requiring entities to provide users of financial statements with informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. Material revenue streams have been reviewed and it is not anticipated that there will be a material impact on timing of recognition or gross up for principal/agent considerations.

Basis of preparation

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

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

Going concern

The Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements as, after due consideration, they consider that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Directors consider that the cash resources available at 31 March 2018 of £7.2 million, together with the cash held at the broker of £2.4 million, and the financing available through activities such as repurchase agreements sufficient to cover normal operational costs and current liabilities, including the proposed dividend, as they fall due for the foreseeable future.

Investments

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

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

Cash and cash equivalents

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

Derivative financial instruments

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

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

2. Significant accounting policies continued

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

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

Fair value

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

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

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

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

Offsetting financial instruments

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

Derecognition of financial assets and liabilities

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

Interest-bearing loans and borrowings

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

Preference Shares

The value of the Preference Shares represented an obligation of the Company to pay the Preference Share's Notional Value on winding up of the Company or on redemption of the Preference Shares in accordance with their terms. The fair value of the Preference Shares amounted to the Notional Value of the Preference Shares, less the costs arising from the issue of these shares. Subsequent to initial measurement, the Preference Shares were remeasured at amortised cost using the effective interest rate method over the life of the Preference Shares, being seven years ended in September 2017.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2018

2. Significant accounting policies continued

The Preference Shares were classified as current liabilities in the 2017 financial statements since they were redeemable in September 2017. The amortisation of the Preference Shares was treated as a finance cost through the Statement of Comprehensive Income.

Expenses attributable to any issue of Ordinary Shares

The expenses of the Company attributable to any issue of Ordinary Shares are those which are necessary to implement such an issue, including registration, listing and admission fees, corporate finance fees, printing, advertising and distribution costs, legal fees and other applicable expenses. They are recognised as incurred and are included as a reduction to Reserves in the Statement of Changes in Equity.

These expenses are allocated to the Ordinary and any other class of Shareholders for which funds are raised based on a pro-rata allocation as appropriate. Expenses attributable to the Ordinary Shareholders are recognised as incurred and are included as a reduction to Reserves in the Statement of Changes in Equity.

Foreign currency transactions

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

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

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

Interest income

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

Expenses

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

Taxation

The Company is a tax-exempt Guernsey limited company and, accordingly, no provision for tax is made.

Other receivables

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

Financial liabilities and equity

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

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

2. Significant accounting policies continued

Receivable for investments sold

Receivable for investments sold represents amounts receivable for transactions contracted for but not yet delivered at the end of the financial year. These amounts are recognised initially at fair value and subsequently at amortised cost.

Other accruals and payables

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

Segment information

The Company has two reportable segments, being the Bond Portfolio and the Loan Portfolio. The real estate debt investment strategy of the Company focuses on secured commercial and residential debt in the UK and Western Europe. Each segment engages in separate business activities and the results of each segment are regularly reviewed by the Board of Directors which fulfils the role of Chief Operating Decision Maker for performance assessment purposes.

Financing agreements

The Company enters into repurchase agreements for the purpose of efficient portfolio management. There are no material revenues arising from the use of repurchase agreements and transaction costs are embedded in the price of the investments and are not separately identifiable. Securities purchased under agreements to resell are valued at fair value and adjusted for any movements in foreign exchange rates. Interest rates vary for each repurchase agreement and are set at the initiation of each agreement. It is the Company's policy to take custody of securities purchased under repurchase agreements and to value the securities on a daily basis to protect the Company in the event the securities are not repurchased by the counterparty. The Company will generally post additional collateral if the market value of the underlying securities declines is less than the face value of the repurchase agreements plus any accrued interest. In the event of default on the obligation to repurchase, the Company has the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation. In the event of default or bankruptcy by the counterparty to the agreement, realisation and/or retention of the collateral or proceeds may be subject to legal proceedings.

The Company commenced entering into repurchase arrangements during the current financial year with several banks to provide leverage to replace that provided by the Preference Shares. This financing is collateralised against the Company's bond portfolio with a weighted average cost at 31 March 2018 of 1.96% per annum. The average period to maturity of the repurchase arrangements is two months.

This short-term financing is shown as a current liability in the Statement of Financial Position.

3. Critical accounting judgements and key sources of estimation uncertainty

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

Critical accounting judgements

There are no critical accounting judgements which require separate disclosure in these financial statements.

Key sources of estimation uncertainty

Valuation of investments

In accordance with the Company's accounting policies, the fair value of financial assets is based on quoted prices where such prices are available from a third party in a liquid market.

Bonds held in the Company are valued using independent market prices (supplied by Markit, Pricing Direct or using broker prices).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2018

3. Critical accounting judgements and key sources of estimation uncertainty continued

The Company has made loans into structures to gain exposure to real estate secured debt in the United Kingdom, France and Germany. These loans are not traded in an active market and there are no independent quotes available for these loans. The fair values of financial instruments that are not traded in an active market are determined using valuation techniques such as modelling. The fair value of these loans is linked directly to the value of the real estate loans in the underlying structure the Company invests in, which are determined based on modelled expected cash flows (drawdown principal and interest repayments, and maturity dates) with effective yields ranging from 5.9% to 13.6% but with certain minor holdings having yields up to 17.6%. Adjustments in the fair value of the real estate loans are considered in light of changes in the credit quality of the borrower and underlying property collateral. On origination of the loan, the Investment Manager performs due diligence on the borrower and related security/property. This includes obtaining a valuation of the underlying property (to assess loan-to-value of the investment). In most instances the terms of the loan require periodic re-valuation of the underlying property to check against loan-to-value covenants.

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

The valuation policy for contingent fees and potential profit participations provided for in contractual arrangements is to mark them at fair value, which in most instances have been obtained for a zero or de-minimis cost, and they are held at this value until there is sufficient evidence that the position should be revalued.

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

	31 Mar 2018 GBP	31 Mar 2017 GBP
Net gains/(losses)		
Net gains on investments at fair value through profit or loss	2,829,989	4,577,664
Net losses on options	(875,946)	(2,358,792)
Net gains/(losses) on foreign exchange instruments and other foreign currency transactions	219,744	(1,757,777)
Net gains	**2,173,787**	**461,095**

5. Operating expenses

	Note	31 Mar 2018 GBP	31 Mar 2017 GBP
Investment management, performance, depositary and administration fees			
Investment management fee	17	(2,612,035)	(2,038,574)
Performance fee	17	(345,404)	(62,520)
Administration fee	17	(174,644)	(148,285)
Depositary fee	17	(31,412)	(55,086)
		(3,163,495)	**(2,304,465)**

	31 Mar 2018 GBP	31 Mar 2017 GBP
Other operating expenses		
Audit fees	(110,322)	(110,008)
Directors' fees	(167,639)	(193,921)
Legal fees	(170,000)	(169,650)
One-off transaction costs	–	(270,177)
Other expenses	(129,998)	(177,967)
	(577,959)	(921,723)
Total operating expenses	**(3,741,454)**	**(3,226,188)**

6. Interest income and finance costs

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

	31 Mar 2018 GBP	31 Mar 2017 GBP
Interest income		
Real Estate Credit Investments – bonds	5,391,118	2,578,943
Real Estate Credit Investments – loans	12,784,308	12,469,382
Receivables (including cash and cash equivalents)	238,410	240,565
Total interest income	**18,413,836**	**15,288,890**
Finance costs:		
Preference Shares issuance expense amortised	–	(89,891)
Dividends – paid to Preference Shareholders	(1,551,425)	(3,354,434)
Net cost of financing agreements	(360,019)	–
Total finance costs	**(1,911,444)**	**(3,444,325)**

The Company redeemed all of its 41,930,419 Preference Shares (and cancelled 3,032,415 Preference Shares which were held in Treasury) on 16 September 2017.

	31 Mar 2018 GBP/Share	31 Mar 2017 GBP/Share
Ordinary Share Dividends		
Fourth dividend for the year ended 31 March 2017/31 March 2016	2,650,953	2,548,648
First dividend for the year ended 31 March 2018/31 March 2017	3,078,226	1,966,099
Second dividend for the year ended 31 March 2018/31 March 2017	3,813,226	1,966,100
Third dividend for the year ended 31 March 2018/31 March 2017	4,181,490	1,966,099
Dividends paid to Ordinary Shareholders in the year	**13,723,895**	**8,446,946**

	31 Mar 2018 GBP/Share	31 Mar 2017 GBP/Share
Dividends per Share		
Fourth dividend for the year ended 31 March 2017/31 March 2016	0.030	0.035[1]
First dividend for the year ended 31 March 2018/31 March 2017	0.030	0.027
Second dividend for the year ended 31 March 2018/31 March 2017	0.030	0.027
Third dividend for the year ended 31 March 2018/31 March 2017	0.030	0.027
Dividends paid to Ordinary Shareholders in the year	**0.120**	**0.116**

1 The amount of £0.035 per Ordinary Share includes a special dividend of £0.008 per Ordinary Share, which was declared on 17 June 2016.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2018

7. Dividends continued

Preference Share dividends

The Preference Shareholders were entitled to a preference coupon equal to 8% per annum of the Preference Share Notional Value. The preference coupon was accrued at each valuation point, paid as a quarterly dividend and shown as a finance cost in the Statement of Comprehensive Income using the effective interest rate method. On 16 September 2017, the Company redeemed all of its Preference Shares.

For the year ended 31 March 2018	Payment date	31 Mar 20188 GBP
Preference Share dividends		
Period 1 April 2017 to 30 June 2017	30 Jun 17	838,608
Period 1 July 2017 to 16 September 2017	16 Sep 17	712,817
Total coupons to Preference Shareholders		**1,551,425**

For the year ended 31 March 2017	Payment date	31 Mar 2017 GBP
Preference Share dividends		
Period 1 April 2016 to 30 June 2016	8 Jul 16	838,609
Period 1 July 2016 to 30 September 2016	30 Sep 16	838,608
Period 1 October 2016 to 31 December 2016	11 Jan 17	838,609
Period 1 January 2017 to 31 March 2017	31 Mar 17	838,608
Total distributions to Preference Shareholders		3,354,434

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

The Directors considered that the Company satisfied the solvency test for each dividend payment during the years ended 31 March 2018 and 31 March 2017.

8. Earnings per Ordinary Share

The calculation of the basic and diluted earnings per share is based on the following data:

	31 Mar 2018	31 Mar 2017
Net earnings attributable to Ordinary Shares (GBP)	14,934,725	9,079,472
Weighted average number of Ordinary Shares for the purposes of basic and diluted earnings per share	**114,467,195**	**73,401,340**
Earnings per Ordinary Share		
Basic and diluted (pence)	13.0	12.0

Weighted average number of Ordinary Shares increased due to the issue of Ordinary Shares during the year (for more details refer to Note 13).

9. Categories of financial instruments

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

	31 Mar 2018 GBP	31 Mar 2017 GBP
Assets		
Financial assets designated at fair value through profit or loss:		
Real Estate Credit Investments – bonds	97,288,421	49,774,418
Real Estate Credit Investments – loans	148,069,010	109,272,179
Investments at fair value through profit or loss	245,357,431	159,046,597
Derivative financial assets		
Call and put options	–	808,105
Forward foreign exchange contracts	183,783	78,895
Loans and receivables:		
Cash and cash equivalents	7,222,978	24,931,855
Cash collateral at broker	2,363,392	–
Receivable for investments sold	48,135,675	–
Other assets	4,894,429	4,405,924
Total assets	**308,157,688**	**189,271,376**
Liabilities		
Liabilities held at amortised cost:		
Cash collateral due to broker	–	390,000
Financing agreements	78,338,718	–
Other liabilities	1,295,058	2,700,039
Preference Shares	–	41,930,419
Total liabilities	**79,633,776**	**45,020,458**

The value of the bond portfolio was £97.3 million at 31 March 2018, the financing against these is shown as £78.3 million at 31 March 2018. Several of the bonds and corresponding financings were sold trade date 28 March 2018 and settled on 3 April 2018. The amount of financing that was repaid alongside the receivable for the bonds sold was £38.5 million.

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

10. Derivative contracts

Forward foreign exchange contracts

The following forward foreign exchange contracts were open as at 31 March 2018:

Counterparty	Settlement date	Buy currency	Buy amount	Sell currency	Sell amount	Unrealised gain GBP
Goldman Sachs[1]	20 Jun 2018	GBP	41,096,081	EUR	46,550,000	183,783
Unrealised gain on forward foreign exchange contracts	183,783					

1 Goldman Sachs International.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2018

10. Derivative contracts continued

Options

The following options contracts were open as at 31 March 2017:

Counterparty	Expiry date	Description	Currency	Notional amount	Strike price	Fair value GBP
Options purchased						
Goldman Sachs[1]	30 Jun 2017	EUR Put GBP Call	GBP	30,432,500	0.870	808,105
Options purchased at fair value						808,105

Forward foreign exchange contracts

The following forward foreign exchange contracts were open as at 31 March 2017:

Counterparty	Settlement date	Buy currency	Buy amount	Sell currency	Sell amount	Unrealised gain GBP
Goldman Sachs[1]	20 Jun 2017	GBP	1,655,401	EUR	1,900,000	27,334
Goldman Sachs[1]	20 Jun 2017	GBP	3,470,159	EUR	4,000,000	42,649
Goldman Sachs[1]	20 Jun 2017	GBP	694,414	EUR	800,000	8,912
Unrealised gain on forward foreign exchange contracts						78,895

1 Goldman Sachs International.

11. Other assets

	31 Mar 2018 GBP	31 Mar 2017 GBP
Bond interest receivable	1,142,588	773,107
Loan income receivable	3,751,841	3,632,817
	4,894,429	**4,405,924**

12. Other liabilities

	31 Mar 2018 GBP	31 Mar 2017 GBP
Investment management, performance, depositary and administration fees payable		
Investment management fee payable	464,447	180,778
Performance fee payable[1]	217,305	1,686,739
Administration fee payable	14,120	23,799
Depositary fee payable	2,343	44,832
Other expense accruals	596,843	763,891
Total liabilities	**1,295,058**	**2,700,039**

1 The Performance Fee payable for 2017 was determined as at the quarter end following the first Continuation Resolution in September 2017 and paid shortly thereafter. Future fees will be accrued and will become payable on the passing of the next continuation vote to be held at the AGM in 2021.

13. Share capital

The issued share capital of the Company consists of ordinary shares ("Ordinary Shares") and its capital as at the year end is represented by the net proceeds from the issuance of Ordinary Shares issued and profits retained up to that date. The Company does not have any externally imposed capital requirements. At 31 March 2018 the Company had capital of £228,085,682 (31 March 2017: £144,250,918).

Authorised Share Capital	31 Mar 2018 Number of Shares	31 Mar 2017 Number of Shares
Company Ordinary Shares of no par value each	Unlimited	Unlimited
Preference Share at par	–	44,962,834

Company Ordinary Shares Issued and fully paid	31 Mar 2018 Number of Shares	31 Mar 2017 Number of Shares
Balance at start of the year	88,365,109	72,818,496
Ordinary Shares issued during the year	51,017,875	15,546,613
Balance at end of the year	**139,382,984**	**88,365,109**

On 23 February 2017, the Company implemented a Placing Programme and, from that date until 31 March 2018 it raised gross proceeds of £110.0 million (£107.9 million net) through the issuance of new shares pursuant to this programme and the existing tap facility. Gross proceeds of approximately £84.7 million (£83.1 million net) were raised during the financial year ended 31 March 2018 (31 March 2017: £25.3 million gross (£24.8 million net)).

Preference Shares Issued and fully paid	31 Mar 2018 Number of Preference Shares	31 Mar 2018 GBP	31 Mar 2017 Number of Preference Shares	31 Mar 2017 GBP
Preference Shares at start of year	41,930,419	41,930,419	41,930,419	41,840,528
Amortised issue costs allocated to Preference Shares	–	–	–	89,891
Shares redeemed	(41,930,419)	(41,930,419)	–	–
Balance at end of year	**–**	**–**	**41,930,419**	**41,930,419**

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The Company's overall strategy was outlined in the Prospectus which was published as part of the Placing Programme on 23 February 2017. The capital structure of the Company consists of the equity of the Company (Statement of Changes in Equity disclosed on page 41).

14. Financial instruments and associated risks

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

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

(a) Market risk

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2018

14. Financial instruments and associated risks continued

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

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

(i) Currency risk

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

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

The Company manages its foreign exchange exposure through a mixture of currency options and forward foreign currency exchange contracts. These instruments are detailed in Note 10.

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

As at 31 March 2018:

Company	Net currency exposure GBP	Monetary assets GBP	Non-monetary assets GBP	Monetary liabilities GBP	Non-monetary liabilities GBP	Forward FX contracts GBP
GBP	227,475,359	56,196,977	193,040,842	–	(62,858,541)	41,096,081
EUR	590,439	31,884,548	26,831,654	–	(17,213,465)	(40,912,298)
USD	19,884	19,884	–	–	–	–
	228,085,682	**88,101,409**	**219,872,496**	**–**	**(80,072,006)**	**183,783**

As at 31 March 2017:

Company	Net currency exposure GBP	Monetary assets GBP	Non-monetary assets GBP	Monetary liabilities GBP	Non-monetary liabilities GBP	Forward FX contracts GBP
GBP	113,224,552	63,818,761	88,216,274	(41,930,419)	(2,700,039)	5,819,975
EUR	31,004,010	11,283,261	25,461,829	–	–	(5,741,080)
USD	22,356	22,356	–	–	–	–
	144,250,918	**75,124,378**	**113,678,103**	**(41,930,419)**	**(2,700,039)**	**78,895**

At 31 March 2018, had GBP strengthened by 5% in relation to all currency exposure of the Company with all other variables held constant (and not taking into account any currency hedges that were in place at year end), equity of the Company and the net profit/(loss) per the Statement of Comprehensive Income would have changed by the amounts shown below. The analysis is performed on the same basis for 2017.

	31 Mar 2018 GBP	31 Mar 2017 GBP
EUR	(29,522)	(1,812,397)
GBP	N/A	N/A
USD	(994)	(1,398)
Total	**(30,516)**	**(1,813,795)**

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

14. Financial instruments and associated risks continued

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

(ii) Interest rate risk

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

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

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

Should interest rates rise by 1.00% (100 basis points) in relation to the fixed rate securities held by the Company, the estimated impact on the NAV of the Company is a decrease of £5.5 million (31 March 2017: decrease £2.1 million). A decrease in interest rates by 100 basis points is estimated to result in an increase in the Net Asset Value of the Company by a similar amount. These estimates are calculated based on the fair value of the fixed rate securities, including accrued interest held by the Company at 31 March 2018 and their weighted average lives. A fundamental principle of bond investing is that market interest rates and bond prices generally move in opposite directions. When market interest rates rise, prices of fixed-rate bonds fall.

The interest rate profile of the Company at 31 March 2018 was as follows:

	Fixed GBP	Floating GBP	Non-interest bearing GBP	Total GBP
Investments at fair value through profit or loss	236,726,673	8,630,758	–	245,357,431
Derivative financial assets				
– Forward foreign exchange contracts	–	–	183,783	183,783
Other assets	–	–	53,030,104	53,030,104
Cash and cash equivalents	–	7,222,978	–	7,222,978
Cash collateral due to broker	–	2,363,392	–	2,363,392
Financing agreements	–	(78,338,718)	–	(78,338,718)
Other liabilities	–	–	(1,295,058)	(1,295,058)
Total	**236,726,673**	**(60,121,590)**	**51,918,829**	**228,523,912**

The maturity profile of the Company at 31 March 2018 was as follows:

	Net assets GBP	Within one year GBP	One to five years GBP	Over five years GBP
Investments at fair value through profit or loss	245,357,431	42,041,125	128,159,992	75,156,314
Derivative financial assets				
– Forward foreign exchange contracts	183,783	183,783	–	–
Other assets	53,030,104	53,030,104	–	–
Cash and cash equivalents	7,222,978	7,222,978	–	–
Cash collateral due to broker	2,363,392	2,363,392	–	–
Financing agreements	(78,338,718)	(78,338,718)	–	–
Other liabilities	(1,295,058)	(1,295,058)	–	–
Net Assets	**228,523,912**	**25,207,606**	**128,159,992**	**75,156,314**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2018

14. Financial instruments and associated risks continued

The interest rate profile of the Company at 31 March 2017 was as follows:

	Fixed GBP	Floating GBP	Non-interest bearing GBP	Total GBP
Investments at fair value through profit or loss	147,831,574	11,215,023	–	159,046,597
Derivative financial assets				
– Options	–	–	808,105	808,105
– Forward foreign exchange contracts	–	–	78,895	78,895
Other assets	–	–	4,405,924	4,405,924
Cash and cash equivalents	–	24,931,855	–	24,931,855
Cash collateral due to broker	–	(390,000)	–	(390,000)
Preference Shares	(41,930,419)	–	–	(41,930,419)
Other liabilities	–	–	(2,700,039)	(2,700,039)
Total	**105,901,155**	**35,756,878**	**2,592,885**	**144,250,918**

The maturity profile of the Company at 31 March 2017 was as follows:

	Net Assets GBP	Within one year GBP	One to five years GBP	Over five years GBP
Investments at fair value through profit or loss	159,046,597	50,946,567	68,478,915	39,621,115
Derivative financial assets				
– Options	808,105	808,105	–	–
– Forward foreign exchange contracts	78,895	78,895	–	–
Other assets	4,405,924	4,405,924	–	–
Cash and cash equivalents	24,931,855	24,931,855	–	–
Cash collateral due to broker	(390,000)	(390,000)	–	–
Preference Shares	(41,930,419)	(41,930,419)	–	–
Other liabilities	(2,700,039)	(2,700,039)	–	–
Net assets	**144,250,918**	**36,150,888**	**68,478,915**	**39,621,115**

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

(b) Credit risk

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

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

	31 Mar 2018 GBP	31 Mar 2017 GBP
Cash and cash equivalents	7,222,978	24,931,855
Cash collateral at broker	2,363,392	–
Derivative financial assets		
– Options	–	808,105
– Forward foreign exchange contracts	183,783	78,895
Total	**9,770,153**	**25,818,855**

14. Financial instruments and associated risks continued

Bonds

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

Loans

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

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

The Company has made further investments of approximately £100.3 million (31 March 2017: £48.5 million) in various loan positions and sold out at a number of positions with an overall value of £41.6 million (31 March 2017: £55 million) bringing the total principal invested in loans during the year to £166,286,154 (31 March 2017: £108,524,533). The Company's total investment in loans at 31 March 2018, amounted to £148,069,010 (31 March 2017: £109,272,179) which includes any interest accrued on loans at this date.

Derivative contracts

The Company also has credit exposure in relation to its derivative contracts. The Company invested in derivative contracts with Goldman Sachs International at 31 March 2018 and at 31 March 2017 with the following credit rating and credit quality according to Standard & Poor's:

	31 Mar 2018 Rating	31 Mar 2017 Rating	31 Mar 2018 GBP	31 Mar 2017 GBP
Value of derivative contracts	A+	A+	183,783	887,000

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2018

14. Financial instruments and associated risks continued

Below are the derivative assets and liabilities by counterparty and details of the collateral received and pledged by Company as at 31 March 2018:

	31 Mar 2018 Rating	31 Mar 2017 Rating	31 Mar 2018 GBP	31 Mar 2017 GBP
Value of derivative contracts	A+	A+	183,783	887,000

Derivative type	Counterparty	Value of derivative assets GBP	Collateral received GBP	Collateral pledged GBP	Net (if greater assets than zero) GBP
Forward foreign exchange contracts	Goldman Sachs	183,783	(183,783)	–	–

Below are the derivative assets and liabilities by counterparty and details of the collateral received and pledged by Company as at 31 March 2017:

Derivative type	Counterparty	Value of derivative assets GBP	Collateral received GBP	Collateral pledged GBP	Net (if greater assets than zero) GBP
Options purchased	Goldman Sachs	808,105	(311,105)	–	497,000
Forward foreign exchange contracts	Goldman Sachs	78,895	(78,895)	–	–

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

Custody

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

If the credit quality or the financial position of State Street Custody Services (Guernsey) Limited were to deteriorate significantly the Investment Manager will seek to move the Company's assets to another bank. State Street Custody Services (Guernsey) Limited is a State Street Bank and Trust Company and the credit rating of State Street Corporation, the parent company of the Depositary, was A1 at the reporting date (31 March 2017: A1) according to Moody's.

(c) Liquidity risk

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

14. Financial instruments and associated risks continued

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

As at 31 March 2018	Less than 1 month GBP	1-3 months GBP	3 months to 1 year GBP	Greater than 1 month GBP
Financial liabilities excluding derivatives				
– Financing agreements	31,444,730	46,893,988	–	–
– Accrued expenses	–	1,295,058	–	–
	31,444,730	**48,189,046**	**–**	**–**

As at 31 March 2017	Less than 1 month GBP	1-3 months GBP	3 months to 1 year GBP	Greater than 1 month GBP
Financial liabilities excluding derivatives				
– Preference Shares	–	–	41,930,419	–
– Cash collateral due to broker	–	390,000	–	–
– Due to related parties	–	180,778	–	–
– Accrued expenses	–	2,519,261	–	–
	3,090,039	**41,930,419**	**–**	

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

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

(d) Valuation of financial instruments

IFRS 13 Fair Value Measurement requires disclosures surrounding the level in the fair value hierarchy in which fair value measurement inputs are categorised for assets and liabilities measured in the Statement of Financial Position. The determination of the fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 2, Significant Accounting Policies and in Note 3, Critical accounting judgements and key sources of estimation uncertainty. For financial instruments that trade infrequently and have little price transparency, fair value is less objective.

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2018

14. Financial instruments and associated risks continued

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

As at 31 March 2018	Level 1 GBP	Level 2 GBP	Level 3 GBP	Total GBP
Non-current assets				
Real Estate Credit Investments – bonds	–	53,662,610	43,625,811	97,288,421
Real Estate Credit Investments – loans	–	–	148,069,010	148,069,010
Current assets				
Forward foreign exchange contracts	–	183,783	–	183,783
Current liabilities				
Real Estate Credit Investments – repurchase agreements	–	(78,338,718)	–	(78,338,718)
	–	**(24,492,325)**	**191,694,821**	**167,202,496**

As at 31 March 2017	Level 1 GBP	Level 2 GBP	Level 3 GBP	Total GBP
Non-current assets				
Real Estate Credit Investments – bonds	–	49,774,418	–	49,774,418
Real Estate Credit Investments – loans	–	–	109,272,179	109,272,179
Current assets				
Options	–	808,105	–	808,105
Forward foreign exchange contracts	–	78,895	–	78,895
	–	**50,661,418**	**109,272,179**	**159,933,597**

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

Cash and cash equivalents and cash on deposit held with banks and other short-term investments in an active market are categorised as Level 1.

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

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

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

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

The Company makes loans into structures to gain exposure to real estate secured debt in the UK and Western Europe. These loans are not traded in an active market and there are no independent quotes available for these loans. Such holdings are classified as Level 3 investments. The fair value of these loans are linked directly to the value of the real estate loans, the underlying structures invests in, which are determined based on modelled expected cash flows (drawdown principal and interest repayments, and maturity dates) with effective yields ranging from 7.6% to 26.0% (the unobservable input).

14. Financial instruments and associated risks continued

Fair value of the real estate loans is adjusted for changes in the credit quality of both the borrower and the underlying property collateral, and changes in the market rate on similar instruments. On origination of the loan, the Investment Manager performs due diligence on the borrower and related security/property. This includes obtaining a valuation of the underlying property (to assess loan-to-value of the investment). In most instances the terms of the loan require periodic revaluation of the underlying property to check against loan-to-value covenants. All the fees associated with the investments (arrangement fees, exit fees etc) are paid directly to the Company and not paid to the Investment Manager.

The majority of the Company's investments in loans are made through a Luxembourg based entity, Stornoway Finance SARL via loan note instruments. As and when market information, such as market prices from recognised financial data providers becomes available, the Company will assess the impact on its portfolio of loans and whether there should be any transfers between levels in the fair value hierarchy. There were no transfers between Level 1 and Level 2 or between Level 2 and Level 3 during the year ended 31 March 2018 or during the year ended 31 March 2017.

At 31 March 2018, the Investment Manager was not aware of any significant movement in the market rates, any indications of impairment, significant credit events or significant negative performance of the underlying property structures, which might affect the fair value of the loans. Whilst no defaults in the underlying investment are expected, a 1% decrease in the discount rate would increase the fair value by £5.5 million (31 March 2017: increase £2.1 million) and increase net profit by an equal amount; an equal change in the opposite direction would decrease the equity of the loan portfolio within the Company and decrease net profit by an equal amount.

Level 3 reconciliation

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

Financial assets designated at fair value through profit or loss	Level 3 31 Mar 2018 GBP	Level 3 31 Mar 2017 GBP
Opening balance	109,272,179	113,242,257
Total gains and losses recognised in the Statement of Comprehensive Income for the year	1,590,236	2,510,998
Purchases	122,388,495	48,502,706
Sales	(41,556,089)	(54,983,782)
Closing balance	191,694,821	109,272,179
Unrealised gain/(loss) on investments classified as Level 3 at year end	**2,529,139**	**(874,807)**

(e) Prepayment and re-investment risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2018

15. Segmental reporting

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

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

The Company invests in Real Estate Credit Investments. The Real Estate Credit Investments may take different forms but will be likely to be: (i) secured real estate loans; and (ii) debentures or any other form of debt instrument, securitised tranches of secured real estate related debt securities, for example, RMBS and CMBS (together "MBS"). The real estate debt strategy focuses on secured residential and commercial debt in the UK and Western Europe, seeking to exploit opportunities in publicly traded securities and real estate loans.

The Company has two reportable segments, being the Loan Portfolio and the Bond Portfolio.

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

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

Year ended 31 March 2018	Loan Portfolio GBP	Bond Portfolio GBP	Total GBP
Reportable segment profit	14,719,024	6,283,550	21,002,574

Year ended 31 March 2017	Loan Portfolio GBP	Bond Portfolio GBP	Total GBP
Reportable segment profit	15,220,945	4,645,609	19,866,554

As at 31 March 2018	Loan Portfolio GBP	Bond Portfolio GBP	Total GBP
Total Assets			308,157,688
Non-segmental assets			57,905,828
Reportable segment assets	151,820,851	98,431,009	250,251,860

As at 31 March 2016	Loan Portfolio GBP	Bond Portfolio GBP	Total GBP
Total Assets			189,271,376
Non-segmental assets			25,818,855
Reportable segment assets	112,904,996	50,547,525	163,452,521

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

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

15. Segmental reporting continued

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

	31 Mar 2018 GBP	31 Mar 2017 GBP
Reportable segment profit	21,002,574	19,866,554
Net gains on repurchase agreements	241,251	–
Net losses on options	(875,946)	(2,358,792)
Net gains/(losses) on foreign exchange instruments and other foreign currency transactions	219,744	(1,757,777)
	20,587,623	15,749,985
Operating expenses	(3,741,454)	(3,226,188)
Finance costs	(1,911,444)	(3,444,325)
Net profit	**14,934,725**	**9,079,472**

Certain assets and liabilities are not considered to be attributable to either segment: these include other receivables and prepayments, cash and cash equivalents and derivative financial assets.

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

	31 Mar 2018 GBP	31 Mar 2017 GBP
Reportable segment assets	250,251,860	163,452,521
Cash and cash equivalents	7,222,978	24,931,855
Cash collateral at broker	2,363,392	–
Derivative financial assets	183,783	887,000
Receivable for investments sold	48,135,675	–
	308,157,688	**189,271,376**

The following is a summary of the movements in the Company's investments analysed by the Loan and Bond Portfolios for the year ended 31 March 2018:

As at 31 March 2018	Loan Portfolio GBP	Bond Portfolio GBP	Total GBP
Investments at fair value through profit or loss			
Opening fair value	109,272,179	49,774,418	159,046,597
Purchases	78,656,613	116,829,141	195,485,754
Repayments/sales proceeds	(41,556,089)	(67,539,243)	(109,095,332)
Realised gain on sales[1]	(938,903)	680,389	(258,514)
Net movement in unrealised gains on investments at fair value through the profit or loss[1]	2,635,210	(235,751)	2,399,459
Principal paydowns	–	(2,220,533)	(2,220,533)
Closing fair value	**148,069,010**	**97,288,421**	**245,357,431**

1 Excludes effective interest adjustment of £1,292,908 relating to the bond portfolio for the year ended 31 March 2018, which has been included in the interest income in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2018

15. Segmental reporting continued

The following is a summary of the movements in the Company's investments analysed by the Loan and Bond Portfolios for the year ended 31 March 2017:

As at 31 March 2017	Loan Portfolio GBP	Bond Portfolio GBP	Total GBP
Investments at fair value through profit or loss			
Opening fair value	113,242,257	39,555,818	152,798,075
Purchases	48,502,706	30,501,983	79,004,689
Repayments/Sales proceeds	(54,983,782)	(18,276,094)	(73,259,876)
Realised gain on sales[1]	3,385,805	2,030,162	5,415,967
Net movement in unrealised gains on investments at fair value through the profit or loss[1]	(874,807)	(166,373)	(1,041,180)
Principal paydowns	–	(3,871,078)	(3,871,078)
Closing fair value	**109,272,179**	**49,774,418**	**159,046,597**

1 Excludes effective interest adjustment of £415,188 relating to the bond portfolio for the year ended 31 March 2017, which has been included in the interest income in the Statement of Comprehensive Income.

16. Collateral

The Company manages some of its financial risks through the use of financial derivative instruments which are subject to collateral requirements. At 31 March 2018 a total of £2,363,392 was lodged with various financial institutions (31 March 2017: £390,000 due from) under the terms of the relevant arrangements. As these amounts are the minimum deemed by the brokers for collateral requirements the cash is restricted and is shown as Cash collateral at broker on the Statement of Financial Position.

17. Material agreements and related party transactions

The Company has made, and will continue to make, certain loan investments through a Luxembourg based entity, Stornoway Finance SARL, via Loan Note Instruments. This entity has separate compartments for each loan deal which effectively ring fences each loan deal. Other funds managed by the Investment Manager may invest pari passu in these compartments.

Investment Manager

The Company is party to an Investment Management Agreement with the Investment Manager, dated 22 February 2017, pursuant to which the Company has appointed the Investment Manager to manage its assets on a day-to-day basis in accordance with its investment objectives and policies, subject to the overall supervision and direction of the Board of Directors.

The Company pays the Investment Manager a Management Fee and a Performance Fee.

Management Fee

Under the terms of the Investment Management Agreement, the Investment Manager is entitled to receive from the Company an annual Management Fee of 1.25% on an adjusted Net Asset Value, being the Net Asset Value of the Ordinary Shares. Prior to the date of redemption of Preferences Shares a Management Fee was also charged on the Notional Value of the Preference Shares.

During the year ended 31 March 2018, the Management Fee totalled £2,612,035 (31 March 2017: £2,038,574), of which £464,447 (31 March 2017: £180,778) was outstanding at the year end.

17. Material agreements and related party transactions continued

Performance Fee

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

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

The initial Performance Period under the Investment Management Agreement ran from 12 November 2013 to 30 September 2017 (being the end of the quarter in which the first Continuation Resolution was passed, which was done at the Company's annual general meeting on 11 September 2017). The performance fee for the initial Performance Period was determined at 30 September 2017 and paid shortly thereafter.

On 1 October 2017, the Company entered a new Performance Period which is expected to run until the end date of the quarter in which the second continuation resolution, to be proposed at the AGM to be held in 2021, is passed. With the commencement of a new Performance Period, the NAV on which the Hurdle Assets will be determined in accordance with the above formula was reset to the NAV per Ordinary Share on 2 October 2017 (being the Starting Date of the new Performance Period).

During the year ended 31 March 2018, the Performance Fee totalled £345,404 (31 March 2017: £62,520), of which £217,305 (31 March 2017: £1,686,739) was outstanding at the year end.

Administration Fee

Under the terms of the Administration Agreement, the Administrator is entitled to receive from the Company an annual administration fee of 0.125% of the Net Asset Value of the Company up to £120,000,000 and 0.0375% of the net asset value of the Company greater than £120,000,000, plus additional fees in relation to transaction fees, statutory reporting, corporate secretarial fees and other out of pocket expenses. State Street Fund Services (Ireland) Limited, the Sub-Administrator, is paid by the Administrator. The above is subject to a minimum monthly fee of £10,000. During the year ended 31 March 2018 the administration fee totalled £174,644 (31 March 2017: £148,285), of which £14,120 (31 March 2017: £23,799) was outstanding at the year end.

Depositary Fee

Under the terms of the Depositary Agreement, the Depositary is entitled to receive from the Company an annual Depositary fee of 0.02% of the Net Asset Value of the Company. During the year ended 31 March 2018 the Depositary fee totalled £31,412 (31 March 2017: £55,086). The Company owed £2,343 to the Depositary at the year end date (31 March 2017: £44,832).

18. Contingencies and commitments

The Company has committed £235.0 million into loans through compartments of Stornoway Finance SARL. As at 31 March 2018, it had funded £148.1 million of this commitment (31 March 2017: £125.9 million commitment of which £109.3 million was funded).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2018

19. Subsequent events

The Directors declared a dividend of 3.0 pence per Ordinary Share on 14 June 2018.

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

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

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

Currency	31 Mar 2018	31 Mar 2017
EUR	1.14	1.17
USD	1.40	1.25

21. Approval of the financial statements

The Annual Report and audited financial statements of the Company were approved by the Directors on 14 June 2018.

APPENDIX I – AIFM REMUNERATION POLICY (UNAUDITED)

Annual remuneration disclosure for the year to 31 March 2018

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

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

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

Cheyne was authorised as an AIFM on 22 July 2014. The quantitative disclosures required under Article 22 of AIFMD in accordance with the European Securities and Markets Authority ("ESMA") guidance for the year ended 31 March 2018, in respect of remuneration derived from the AIF, are as follows:

Aggregate quantitative information on remuneration of Code Staff

Business area	Number of Code Staff	AIFM total remuneration (all variable)	Code Staff relevant to the AIF	Remuneration derived from the AIF (all variable)	Deferred remuneration derived from the AIF
Portfolio Management	15	£28,754,194	1	£703,440	£228,199
Senior Management	7	£7,299,429	7	£480,016	£117,712
Total	**22**	**£36,053,623**	**8**	**£1,183,456**	**£345,911**

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

APPENDIX II – AIFM LEVERAGE (UNAUDITED)

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

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

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

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

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

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

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

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

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

Leverage is limited to 500% of NAV of the Company under both the Gross and Commitment approaches. Up to 31 March 2018, the maximum leverage calculated has been 127.443%, for the Gross Approach and 134.799% for the Commitment Approach. In the year ended 31 March 2017, the average leverage amounted to 116.445% for the Gross Approach and 129.518% for the Commitment Approach.

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