This Supplementary Prospectus comprises a supplementary prospectus relating to Fair Oaks Income Limited (the "**Company**") prepared in accordance with the Prospectus Rules of the Financial Conduct Authority ("**FCA**") made pursuant to section 73A of FSMA (the "**Supplementary Prospectus**"). This Supplementary Prospectus has been approved by the FCA and has been filed with the FCA in accordance with Rule 3.2 of the Prospectus Rules.

This Supplementary Prospectus is supplemental to, and should be read in conjunction with, the prospectus published by the Company on 9 March 2017 relating to the First Placing and Offer for Subscription of C Shares and the Placing Programme of 2017 Shares and/or C Shares (the "**Prospectus**"). Except as expressly stated herein, or unless the context requires otherwise, the definitions used or referred to in the Prospectus also apply in this Supplementary Prospectus.

The Company and the Directors and GP Directors, whose names appear on pages 7 and 8 of this Supplementary Prospectus, each accept responsibility for the information contained in this Supplementary Prospectus and the Prospectus. To the best of the knowledge and belief of the Company, the Directors and the GP Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Supplementary Prospectus and the Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The distribution of this Supplementary Prospectus and the Prospectus and/or the accompanying documents into a jurisdiction other than the United Kingdom may be restricted by law and therefore persons into whose possession this Supplementary Prospectus and the Prospectus and/or any accompanying documents comes should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws of any such jurisdictions. In particular, subject to certain exceptions, this Supplementary Prospectus, the Prospectus and any accompanying documents should not be distributed, forwarded to or transmitted in or into any Restricted Jurisdiction ("**Restricted Jurisdiction**" being each of Australia, Canada, Japan, the Republic of South Africa and the United States).

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# Fair Oaks Income Limited

*(Incorporated in Guernsey under The Companies (Guernsey) Law, 2008, as amended, with registered number 58123 and registered as a Registered Closed-ended Collective Investment Scheme with the Guernsey Financial Services Commission)*

## First Placing and Offer for Subscription of up to 200 million C Shares at US$1 per C Share

## Placing Programme of 2017 Shares and/or C Shares up to a further aggregate issue value of US$250 million (excluding the proceeds from the First Placing and Offer for Subscription)

## SUPPLEMENTARY PROSPECTUS

# Numis Securities Limited

*Bookrunner, Broker and Financial Adviser*

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Numis Securities Limited ("**Numis**"), which is authorised and regulated in the United Kingdom by the FCA, is acting exclusively for the Company and for no one else in connection with the Issue and Placing Programme and will not regard any other person (whether or not a recipient of this Supplementary Prospectus or the Prospectus) as its client in relation to the Issue and Placing Programme and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or for providing advice in connection with the Issue and Placing Programme or any other matter referred to in this Supplementary Prospectus or in the Prospectus.

Numis does not accept any responsibility whatsoever or make any representation or warranty, express or implied, in respect of the contents of this Supplementary Prospectus or the Prospectus, including its accuracy, completeness or verification, in respect of any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Shares and the Issue and Placing Programme, and nothing in this Supplementary Prospectus or in the Prospectus is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or future. Numis (and its affiliates) accordingly disclaim all and any liability, whether arising in tort, contract or otherwise, which it/they might otherwise be found to have in respect of this Supplementary Prospectus, the Prospectus or any such statement. This does not exclude or limit any responsibilities which Numis may have under FSMA or the regulatory regime established thereunder.

Recipients of this Supplementary Prospectus and the Prospectus acknowledge that: (i) they have not relied on the Company or Numis or any person affiliated with either of them in connection with any investigation of the accuracy of any information contained in this Supplementary Prospectus or the Prospectus or their investment decision; and (ii) they have relied only on the information contained in the Prospectus in conjunction with the information as supplemented in this Supplementary Prospectus and that no person has been authorised to give any information or make any representations other than those contained in this Supplementary Prospectus and in the Prospectus and, if given or made, such information or representations must not be relied on as having been authorised by the Company or Numis.

Potential investors should consult their stockbroker, bank manager, solicitor, accountant or other financial adviser before investing in the Company. Potential investors should also consider the risk factors relating to the Company, the Master Fund and Master fund II set out in the Prospectus.

The Shares are intended to be suitable only for institutional, professional and knowledgeable investors (including those who are professionally advised), who understand, or who have been advised of, the potential risk of capital loss from an investment in the Shares and the limited liquidity both in the Shares and in the underlying investments of the Master Fund and Master Fund II, and for whom an investment in the Shares is part of a diversified investment portfolio and who fully understand and are willing to assume the risks involved with such an investment.

The Shares have not been approved or disapproved by the SEC, any US state securities commission or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Shares or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

The Shares have not been and will not be registered under the Securities Act or under any securities laws of any state or other jurisdiction of the United States and may not be taken up, offered, sold, resold, transferred, delivered or distributed, directly or indirectly, within, into or from the United States or by, or for the account or benefit of, US Persons (as such term is defined in Regulation S) except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with the securities laws of any state or other jurisdiction of the United States. The Company has not been and will not be registered under the US Investment Company Act of 1940, as amended.

The Shares are being offered and sold solely outside the United States in offshore transactions to non-US Persons within the meaning of and in accordance with the safe harbour from the registration requirements in Regulation S under the Securities Act.

The Shares have not been and will not be registered under the relevant laws of any Restricted Jurisdiction or any state, province or territory thereof and may not be taken up, offered, sold, resold, transferred, delivered or distributed, directly or indirectly, within, into or from any Restricted Jurisdiction or to, or for the account or benefit of, any person with a registered address in, or who is resident or ordinarily resident in, or a citizen of, any Restricted Jurisdiction except pursuant to an applicable exemption. There will be no public offer in the United States or any other Restricted Jurisdiction.

Each of the Company, the Master Fund and Master Fund II is a Registered Closed-ended Collective Investment Scheme pursuant to The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended and the Registered Collective Investment Schemes Rules 2015 issued by the Guernsey Financial Services Commission (the "**Commission**"). This document has not been reviewed by the Commission and, in granting registration, the Commission has relied upon specific warranties provided by the Administrator. The Commission takes no responsibility for the financial soundness of the Company, the Master Fund or Master Fund II or for the correctness of any statements made or opinions expressed with regard to it.

The Directors and the GP Directors have taken all reasonable care to ensure that the facts stated in this document are true and accurate in all material respects, and that there are no other facts the omission of which would make misleading any statement in the document, whether of facts or of opinion. All the Directors and the GP Directors accept responsibility accordingly.

It should be remembered that the price of securities or limited partnership interests and the income from them can go down as well as up.

Without limitation, neither the contents of the Company's websites (or any other website) nor the content of any website accessible from hyperlinks on any of the Company's websites (or any other website) is incorporated into, or forms part of this document.

Dated: 26 April 2017

**Events arising since publication of the Prospectus**

This Supplementary Prospectus is being published in relation to the Placing Programme. This Supplementary Prospectus is a regulatory requirement under the Prospectus Rules following the publication of the annual report and audited financial statements for the financial year ended 31 December 2016 by each of (i) the Company and (ii) the Master Fund. This Supplementary Prospectus has been approved for publication by the FCA.

**A. Significant new factor**

**Annual report and audited financial statements for the financial year ended 31 December 2016**

On 7 April 2017, the Company published its annual report and audited financial statements for the financial year ended 31 December 2016 (the "**2016 Company Annual Report**"). On 7 April 2017, the Master Fund released its annual report and audited financial statements for the financial year ended 31 December 2016 (the "**2016 Master Fund Annual Report**", and together with the 2016 Company Annual Report the "**2016 Annual Reports**"). By virtue of this Supplementary Prospectus, the 2016 Annual Reports are incorporated into, and form part of, the Prospectus.

The non-incorporated parts of the 2016 Annual Reports are either not relevant to investors or are covered elsewhere in the Prospectus.

**Historical financial information incorporated by reference**

**Part A: The Company**

Historical financial information relating to the Company on the matters referred to below is included in the 2016 Company Annual Report as set out in the table below and is expressly incorporated by reference into this Supplementary Prospectus and the Prospectus.

| | *Annual report and financial statements for the year ended 31 December 2016 (audited)* |
|---|---|
| *Nature of information* | *Page No(s)* |
| Chairman's Statement | 2-3 |
| Investment Adviser's Report | 4-6 |
| Directors' Report | 9-13 |
| Independent Auditor's Report | 23 |
| Statement of Comprehensive Income | 24 |
| Statement of Changes in Shareholders' Equity | 25 |
| Statement of Financial Position | 26 |
| Statement of Cash Flows | 27 |
| Significant accounting policies | 28-33 |

| | *Annual report and financial statements for the year ended 31 December 2016 (audited)* |
|---|---|
| *Nature of information* | *Page No(s)* |
| Notes to the financial statements | 28-54 |

**Part B: The Master Fund**

The 2016 Master Fund Annual Report is reproduced in Appendix 1 to this Supplementary Prospectus.

**Selected financial information**

**Part A: The Company**

The key audited figures that summarise the financial condition of the Company in respect of the year ended 31 December 2016, which have been extracted without material adjustment from the historical information referred to above, are set out in the following table.

| | ***As at or for the year ended 31 December 2016 (US$) (audited)*** |
|---|---|
| Net assets | 311,683,895 |
| Net Asset Value per Ordinary Share (cents) | 100.24 |
| Net Asset Value per C share (cents) | N/A |
| Basic and diluted earnings per Ordinary Share (cents) | 21.78 |
| Basic and diluted loss per C Share (cents) | N/A |
| Total revenue | 68,464,881 |
| Total comprehensive income | 67,684,815 |
| Total operating expenses | 780,066 |

**Part B: The Master Fund**

The key audited figures that summarise the financial condition of the Master Fund in respect of the year ended 31 December 2016, which have been extracted without material adjustment from the historical information referred to above, are set out in the following table.

| | ***As at or for the year ended 31 December 2016 (US$) (audited)*** |
|---|---|
| Net assets | 392,257,926 |

| | |
|---|---|
| Total partnership interests | 392,257,926 |
| Total revenue | 111,226,592 |
| Total comprehensive income | 97,139,791 |
| Total operating expenses | 14,086,801 |

**Operating and financial review**

**Part A: The Company**

The 2016 Company Annual Report included, on the pages specified in the table below: descriptions of the Company's financial condition (in both capital and revenue terms); details of the Company's investment activity and portfolio exposure; and changes in its financial condition for that year.

| | *Annual report and financial statements for the year ended 31 December 2016 (audited)* |
|---|---|
| *Nature of information* | *Page No(s)* |
| Chairman's Statement | 2-3 |
| Investment Adviser's report | 4-6 |
| Portfolio update | 4 |
| Financial highlights | Contents page |

**Part B: The Master Fund**

The 2016 Master Fund Annual Report, reproduced in Appendix 1 to this Supplementary Prospectus, included, on the pages specified in the table below: descriptions of the Master Fund's financial condition (both in capital and revenue terms); details of the Master Fund's investment activity and portfolio exposure; and changes in its financial condition during that period.

| | *Annual report and accounts for the year ended 31 December 2016 (audited)* |
|---|---|
| *Nature of information* | *Page No(s)* |
| Statement of General Partner's responsibilities | 6 |
| Investment Adviser's report | 2-5 |
| Portfolio Statement (unaudited) | 36 |

**B. Supplements to the summary**

As a result of the publication of the 2016 Annual Reports, the summary document which forms part of the Prospectus is hereby supplemented as follows:

<table>
<tr>
<td>B.7</td>
<td>Key financial information</td>
<td>The key figures that summarise the Company's financial condition in respect of the financial year ended 31 December 2016 (audited) are set out in the following table:<br><br>
<table>
<tr><td></td><td colspan="2">As at or for the year ended 31 December 2016 (audited) (US$)</td></tr>
<tr><td></td><td>2016</td><td>2015</td></tr>
<tr><td>Net assets</td><td>311,683,895</td><td>277,591,973</td></tr>
<tr><td>Net Asset Value per Ordinary Share</td><td>1.0024</td><td>0.8663</td></tr>
<tr><td>Net Asset Value per C share</td><td>N/A</td><td>0.9191</td></tr>
<tr><td>Basic and diluted earnings/(loss) per Ordinary Share</td><td>0.2178</td><td>(0.0208)</td></tr>
<tr><td>Total revenue/(loss)</td><td>68,464,881</td><td>(7,163,801)</td></tr>
<tr><td>Total comprehensive income/(loss)</td><td>67,684,815</td><td>(8,255,529)</td></tr>
<tr><td>Total operating expenses</td><td>780,066</td><td>1,091,728</td></tr>
</table>
<br>Other than as disclosed above, there has been no significant change in the financial condition or operating results of the Company during the period covered by the historical key financial information shown above or since 31 December 2016, being the last date on which the Company published financial information.</td>
</tr>
</table>

The following information relates to the Master Fund. It has been included here as the Company has invested in excess of 40 per cent. of its gross assets in the Master Fund and is required to briefly explain the exposure, the identity of the Master Fund and to provide such information as would be required in a summary note by the Master Fund.

<table>
<tr><td>B.7</td><td>Key financial information</td><td>The key figures that summarise the Master Fund's financial condition in respect of the financial year ended 31 December 2016 (audited) are set out in the following table:<br><br>

<table>
<tr><td></td><td colspan="2">As at or for the year ended 31 December (audited) (US$)</td></tr>
<tr><td></td><td>2016</td><td>2015</td></tr>
<tr><td>Net assets</td><td>392,257,926</td><td>269,069,537</td></tr>
<tr><td>Total revenue /(loss)</td><td>111,226,592</td><td>(4,907,380)</td></tr>
<tr><td>Total comprehensive income/(loss)</td><td>97,139,791</td><td>(7,176,267)</td></tr>
<tr><td>Total operating expenses</td><td>14,086,801</td><td>2,268,887</td></tr>
</table>

<br>Other than as disclosed above, there has been no significant change in the financial condition or operating results of the Master Fund during the period covered by the historical key financial information shown above or since 31 December 2016, being the last date on which the Master Fund released financial information.</td></tr>
</table>

## C. Significant change

There has been no significant change in the financial or trading position of the Company since 31 December 2016, being the last date to which the Company has published audited financial information.

There has been no significant change in the financial or trading position of the Master Fund since 31 December 2016, being the last date to which the Master Fund has released audited financial information.

## D. Additional information

**Responsibility**

The Company, whose registered office address appears below, the Directors, whose names appear below, and the GP Directors, whose names appear below, accept responsibility for the information contained in this Supplementary Prospectus. To the best of the knowledge and belief of the Company, the Directors and the GP Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Supplementary Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Directors of the Company are:

Professor Claudio Albanese

Jonathan Bridel
Nigel Ward

The GP Directors are:

Miguel Arraya

Miguel Ramos Fuentenebro

Chris Waldron

The registered office of the Company is at:

Sarnia House, Le Truchot, St Peter Port, Guernsey GY1 1GR

**Documents available for inspection**

Copies of this Supplementary Prospectus and the 2016 Company Annual Report are available for inspection on the Company's website www.fairoaksincome.com. Until the closing of the Placing Programme, copies of this Supplementary Prospectus and the 2016 Annual Reports are also available for inspection during usual business hours on any day (Saturdays, Sundays and public holidays excepted) at the offices of Stephenson Harwood LLP at 1 Finsbury Circus, London EC2M 7SH.

**General**

To the extent that there is any inconsistency between any statement in or incorporated by reference in this Supplementary Prospectus and any other statement in or incorporated by reference in the Prospectus, the statements in or incorporated by reference in this Supplementary Prospectus will prevail.

Save as disclosed in this Supplementary Prospectus, no other significant new factor, material mistake or inaccuracy relating to information included in the Prospectus has arisen or been noted, as the case may be, since the publication of the Prospectus.

26 April 2017

## Appendix 1

## Annual Report and Audited Financial Statements of the Master Fund for the financial year ended 31 December 2016

# FOIF LP

## ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2016

# FOIF LP
## CONTENTS

# FOIF LP
## INVESTMENT ADVISER'S REPORT

Fair Oaks Capital Limited (the "Investment Adviser") believed that the CLO market dislocation in the first half of 2016 was not due to fundamental changes in the credit markets, but that it was the result of temporary technical factors. FOIF LP (the "Master Fund") took take advantage of the opportunity in the secondary market acquiring US$144 million par of CLO mezzanine securities, at a weighted average target return to expected call date of 25.4%.

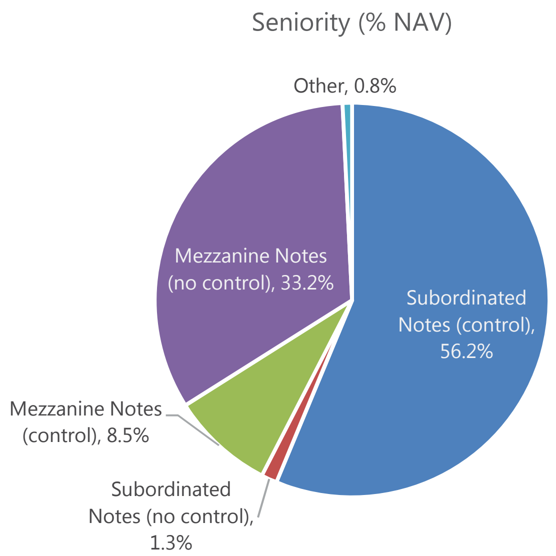
During the course of 2016, the strength in broader capital markets, low loan market defaults and constructive technical factors supported a strong recovery in the CLO market. Fair Oaks Income Limited (the "Company") (formerly Fair Oaks Income Fund Limited) estimates that, as the end of December 2016, the weighted average target return to expected call date of the mezzanine positions acquired in early 2016 had tightened to 19.8%.

The fundamental performance of the Master Fund control equity positions continued to be strong with actual default losses in the underlying CLO portfolios well below original base case assumptions. The Master Fund's CLO equity portfolio had experienced cumulative defaults of 0.1%[1] as at 30 December 2016, significantly below the 1.2% expected cumulative defaults (as per the underlying investments' base case assumptions) and the US loan market 2016 issuer-weighted default rate of 2.1%. Exposure to energy and metals/mining issuers in the Master Fund's CLO equity positions was limited to 1.9% and 0.8% respectively. The average price for the loans in the Master Fund's portfolio was 99.1 US cents compared with an average price of 97.2 US cents for the Credit Suisse Leveraged Loan Index.

The Master Fund completed the refinancing of AMMC CLO 15 on 9 December 2016. The cost of AAA-rated financing for this investment was reduced from Libor+1.53% to Libor+1.35% while the cost of AA rated and A rated financing was reduced from Libor+2.45% to Libor+1.90% and from Libor+3.46% to Libor+2.80% respectively. The weighted average cost of AAA-A financing decreased by an estimated 28 bps or US$1.14 million per year. The reduction in the cost of CLO liabilities (net of refinancing expenses) resulted in an increase in the estimated future return on this investment by over 2.0%. The Master Fund completed the refinancing of Allegro CLO II, Arrowpoint 2014-3 and the reset of Harvest VII, in early 2017. The Master Fund continues to monitor closely the potential for refinancing further CLO investments in the short and medium term.

**Portfolio Update**

The Company as at 30 December 2016[2], via its investment in the Master Fund, had exposure to 904 issuers across 41 CLOs managed by 22 managers. Control CLO equity positions represented 56.2% of the portfolio. CLO mezzanine debt investments represented an additional 41.7%, composed of 8.5% mezzanine investments in CLOs in which the Master Funds owned a control equity position, and 33.2% where it did not. The remaining 0.8% comprised fee notes associated with equity investments.

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[1] Cumulative default rate defined as payment defaults on loans in CLOs in which the Master Fund holds an equity interest, weighted by the Master Fund's percentage equity holding

[2] Based on the underlying loans in CLOs in which the Master Fund holds equity

**Bank Loan Market Overview**

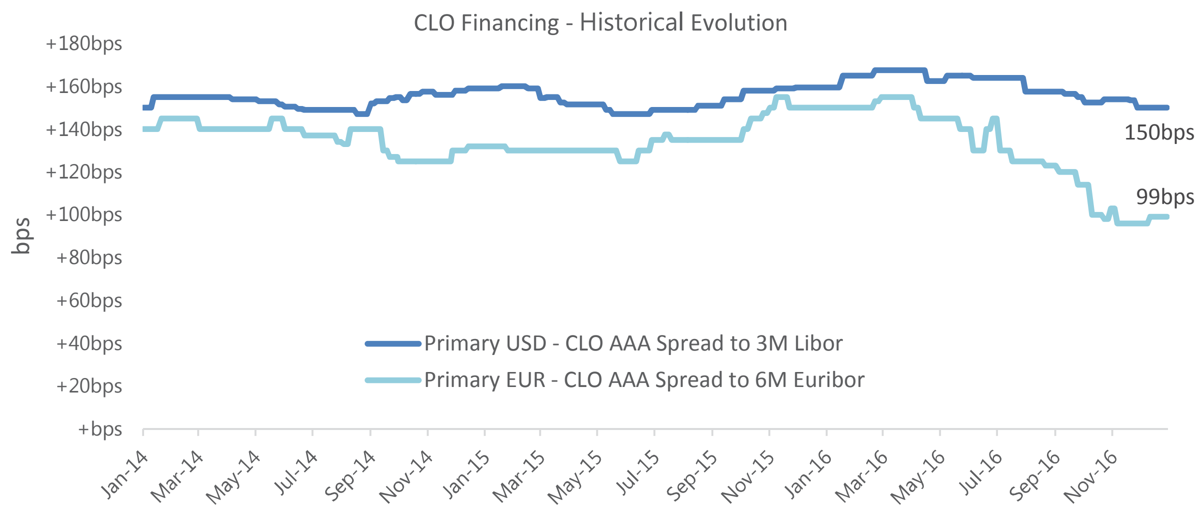
The Credit Suisse Leverage Loan Index returned 9.9% during 2016. As at 30 December 2016, the US loan market twelve month rolling default rate by number of issuers stood at 2.1%, up from 1.1% as at the end of 2015, though down slightly from October when it stood at 2.4%. The decline in late 2016 was due to several commodity-exposed issuers which defaulted in 2015 being removed from the relevant twelve month period. JP Morgan expects default rates in the US loan market to remain relatively flat at 2% through 2017[3], with a shift away from energy and commodity-related defaults.

The Investment Adviser continues to believe that increased bank loan price volatility is now a structural feature of the market due primarily to technical factors such as reduced dealer inventories and the importance of retail funds as the marginal buyer or seller in the loan market. The loan market's reaction to political and other macro events can benefit CLOs, as their closed-ended nature and lack of mark-to-market requirements allow them to take advantage of dips in loan prices.

**CLO Market Overview**

2016 new issue volume in the United States reached US$72.4 billion, down from US$99.1 billion in 2015[4] but ahead of expectations for the year. In Europe, new issue volume reached €18.0 billion, up from 2015's €13.5 billion[4] as European CLO liabilities tightened towards the end of 2016, improving the arbitrage for CLO equity investors.

US CLO equity arbitrage started to become attractive again in late 2016 as the cost of CLO AAA liabilities tightened. Anecdotical evidence points at an increase in the AAA investor base, driven primarily by Asian institutions. US and European CLO AAA spreads tightened from 160 bps and 150 bps respectively[5] at the beginning of the year to 150 bps and 99 bps at the end of December. As at the end of February 2017, US and European CLO AAA spreads have tightened further to 133 bps and 92 bps respectively[5].




Source: JP Morgan

The second half of 2016 also saw an upward trend in CLO refinancing activity, bringing 2016 global refinancing volumes to US$43.6 billion (US$39.4 billion US, US$4.2 billion Europe)[5].

Risk retention regulations officially came into effect in the United States on 24 December 2016. We believe that the impact in the market will be marginal given the availability of solutions which minimise the capital required to be provided by the CLO manager to comply with the 5% retention requirement.

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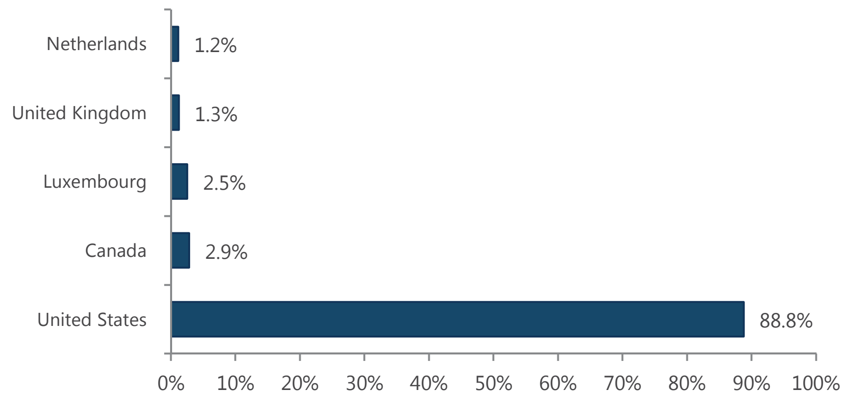
[3] J.P Morgan "2017 High Yield Bond and Leveraged Loan Outlook", 2 December 2016
[4] JP Morgan Research
[5] JP Morgan Research. Primary USD CLO AAA spreads to 3M Libor. Primary EUR CLO AA spread to 6M Euribor.

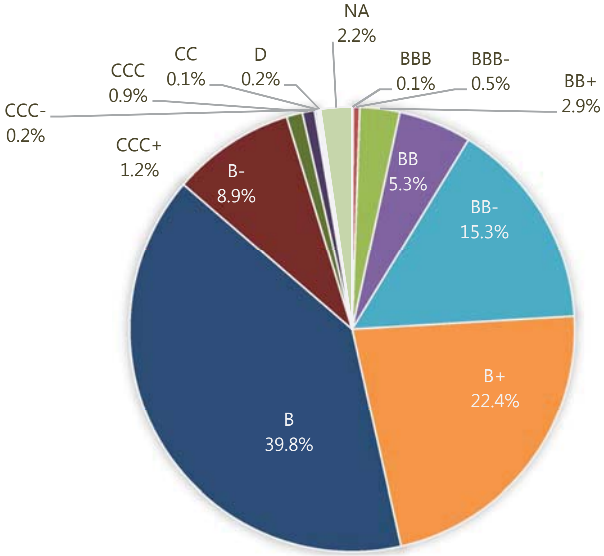
### Risk management

The Master Fund benefits from an experienced and dedicated team of research analysts who continue to monitor the underlying portfolios of the CLO investments. Close relationships with the CLO managers help to monitor and forecast the performance of the underlying portfolios of the CLO investments, as well as serving as ongoing due diligence of the CLO managers.

Geographical and Currency Breakdown
(based on par value of loans in gross portfolio)

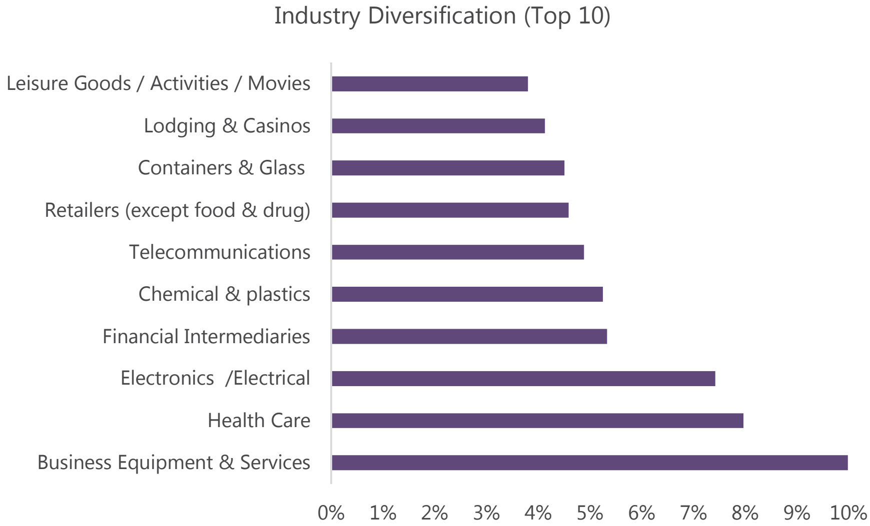



Rating Breakdown
(based on par value of loans in gross portfolio)



# FOIF LP
## INVESTMENT ADVISER'S REPORT, continued

**Risk management, continued**




Source: CLO trustee reports. Based on the Master Fund's equity positions and weighted by CLO size and Master Fund's equity ownership percentage

**Outlook**

The Investment Adviser believes that the Master Fund's CLO investments are well positioned to continue to generate attractive returns, given the quality of the underlying portfolios and the continuous active monitoring and management of the underlying credit risk.

The Master Fund will also continue to benefit from the optionality inherent in the funding of its control CLO equity investments. We expect to refinance the CLO liabilities of additional CLO positions, increasing the future cash distributions to the CLO equity.

We further expect the tactical mezzanine investments to continue to perform strongly as we believe that the weighted average target return as at the end of 2016 (19.8%) still represents a very attractive risk-reward proposition in the current market environment.

Fair Oaks Capital Limited
5 April 2017

# FOIF LP
## STATEMENT OF GENERAL PARTNER'S RESPONSIBILITIES

Fair Oaks Income Fund (GP) Limited (the "General Partner") is responsible for preparing the Financial Statements of FOIF LP (the "Master Fund") in accordance with applicable law and regulations and with the amended and restated Limited Partnership Agreement dated 15 May 2014 (the "LPA").

The LPA requires the General Partner to prepare Financial Statements for each financial period which present a true and fair view of the state of affairs of the Master Fund and its net result for that period. The General Partner has elected to prepare the Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB").

In preparing these Financial Statements, the General Partner has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepared the Financial Statements on the going concern basis as, in the view of the General Partner, it is appropriate to presume that the Master Fund will continue in business.

The General Partner is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time, the financial position of the Master Fund and enable it to ensure that the Financial Statements comply with the LPA. It has a general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Master Fund and to prevent and detect fraud and other irregularities.

Christopher Waldron
Director of the General Partner
5 April 2017

# INDEPENDENT AUDITOR'S REPORT
# TO THE PARTNERS OF FOIF LP

We have audited the Financial Statements of FOIF LP (the "Master Fund") for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Changes in Partnership Interests, the Statement of Financial Position, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is the amended and restated Limited Partnership Agreement dated 15 May 2014 (the "Limited Partnership Agreement") and International Financial Reporting Standards as issued by the IASB.

This report is made solely to the partners, as a body, in accordance with our terms of engagement as detailed in our letter of 21 November 2014. Our audit work has been undertaken so that we might state to the partners 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 Master Fund and the partners as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the general partner and auditor**

As explained more fully in the Statement of General Partner's Responsibilities set out on page 6, the General Partner is responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Master Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the General Partner; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the Audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on the financial statements**

In our opinion the Financial Statements:

- give a true and fair view, in accordance with International Financial Reporting Standards as issued by the IASB, of the Master Fund's affairs as at 31 December 2016 and of its result for the year then ended; and
- have been prepared in accordance with the requirements of the Limited Partnership Agreement.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the terms of our engagement letter require us to report to you if, in our opinion whether:

- proper accounting records have not been kept by the General Partner;
- the Master Fund's Statement of Financial Position and Statement of Comprehensive Income are not in agreement with the accounting records;
- any report of the General Partner is not consistent with the Statement of Financial Position and Statement of Comprehensive Income; and
- we have not obtained all access, information and explanations which we think necessary for the purposes of our audit.

KPMG Channel Islands Limited
*Chartered Accountants, Guernsey*

5 April 2017

# FOIF LP
## STATEMENT OF COMPREHENSIVE INCOME
### For the year ended 31 December 2016

| | Note | 1 January 2016 to 31 December 2016 US$ | 1 January 2015 to 31 December 2015 US$ |
|---|---|---|---|
| **Revenue** | | | |
| Net gains/(losses) on financial assets at fair value through profit or loss | 6 | 53,769,936 | (29,925,826) |
| Net gains on derivatives at fair value through profit or loss and foreign exchange | | 200,415 | 629,681 |
| Investment income | 6 | 57,256,241 | 24,387,904 |
| Other income | | - | 861 |
| **Total revenue/(loss)** | | **111,226,592** | **(4,907,380)** |
| **Expenses** | | | |
| Priority profit share | 8 | 3,571,398 | 1,798,577 |
| Carried interest | 8 | 10,016,796 | - |
| Audit fees | | 38,892 | 42,098 |
| Administration fees | 8 | 118,161 | 68,320 |
| Legal and professional fees | | 11,892 | 45,461 |
| Custodian fees | 8 | 100,635 | 54,753 |
| General Partner expenses | 8 | 163,878 | 235,812 |
| Other expenses | | 65,149 | 23,866 |
| **Total expenses** | | **14,086,801** | **2,268,887** |
| **Profit/(loss) and total comprehensive income/(loss) for the year** | | **97,139,791** | **(7,176,267)** |

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

The accompanying notes on pages 12 to 35 form an integral part of the Financial Statements.

# FOIF LP
## STATEMENT OF CHANGES IN PARTNERSHIP INTERESTS
## For the year ended 31 December 2016

| | Note | Founder Partner US$ | Limited Partners US$ | Total US$ |
|---|---|---|---|---|
| **At 1 January 2016** | | **450** | **269,069,087** | **269,069,537** |
| Contributions | 9 | 241 | 91,500,000 | 91,500,241 |
| Capital distributions during the year | 4 | - | (12,500,000) | (12,500,000) |
| Total comprehensive income for the year | | - | 97,139,791 | 97,139,791 |
| Distributions during the year | 4 | - | (52,951,643) | (52,951,643) |
| **At 31 December 2016** | | **691** | **392,257,235** | **392,257,926** |

| | Note | Founder Partner US$ | Limited Partners US$ | Total US$ |
|---|---|---|---|---|
| **At 1 January 2015** | | **-** | **123,902,137** | **123,902,137** |
| Contributions | 9 | 450 | 181,103,100 | 181,103,550 |
| Total comprehensive loss for the year | | - | (7,176,267) | (7,176,267) |
| Distributions during the year | 4 | - | (28,759,883) | (28,759,883) |
| **At 31 December 2015** | | **450** | **269,069,087** | **269,069,537** |

The accompanying notes on pages 12 to 35 form an integral part of the Financial Statements.

# FOIF LP
## STATEMENT OF FINANCIAL POSITION
## At 31 December 2016

| | Note | 31 December 2016 US$ | 31 December 2015 US$ |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 1,158,663 | 3,804,191 |
| Other receivables and prepayments | | 10,403 | 372,269 |
| Derivatives at fair value through profit or loss | | 264,906 | - |
| Financial assets at fair value through profit or loss | 6 | 411,806,313 | 275,519,805 |
| **Total assets** | | **413,240,285** | **279,696,265** |
| **Liabilities** | | | |
| Trade and other payables | 10 | 439,510 | 319,215 |
| Derivatives at fair value through profit or loss | | - | 51,294 |
| Carried interest payable | 8 | 10,016,796 | - |
| Distribution payable | 4 | 10,526,053 | 10,256,219 |
| **Total liabilities** | | **20,982,359** | **10,626,728** |
| **Net assets** | | **392,257,926** | **269,069,537** |
| **Partnership interests represented by:** | | | |
| Limited Partner | | 392,257,235 | 269,069,087 |
| Founder Partner | | 691 | 450 |
| **Total partnership interests** | | **392,257,926** | **269,069,537** |

The Financial Statements on pages 8 to 35 were approved and authorised for issue by the General Partner on 5 April 2017 and signed on its behalf by:

Christopher Waldron
Director
For and on behalf of Fair Oaks Income Fund (GP) Limited

The accompanying notes on pages 12 to 35 form an integral part of the Financial Statements.

# FOIF LP
## STATEMENT OF CASH FLOWS
### For the year ended 31 December 2016

| | Notes | 1 January 2016 to 31 December 2016 US$ | 1 January 2015 to 31 December 2015 US$ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(loss) for the year | | 97,139,791 | (7,176,267) |
| Adjustments for: | | | |
| Investment income | 6 | (57,256,241) | (24,387,904) |
| Net (gains)/losses on financial assets at fair value through profit or loss | 6 | (53,769,936) | 29,925,826 |
| Net unrealised gains on derivatives at fair value through profit or loss and foreign exchange | | (200,415) | (629,681) |
| | | **(14,086,801)** | **(2,268,026)** |
| Decrease/(increase) in other receivables and prepayments | | 361,478 | (348,616) |
| Increase in trade and other payables | | 120,295 | 150,514 |
| Increase in carried interest payable | 8 | 10,016,796 | - |
| Purchase of investments | 6 | (104,695,561) | (237,296,170) |
| Sale of investments | 6 | 6,987,673 | 52,601,464 |
| Coupon interest received and repayments | 6 | 72,447,557 | 26,963,779 |
| **Net cash flow used in operating activities** | | **(28,848,563)** | **(160,197,055)** |
| **Cash flows from financing activities** | | | |
| Proceeds from capital contributions | | 91,500,629 | 181,103,100 |
| Income distributed during the year | | (52,681,809) | (18,503,664) |
| Capital distributed during the year | | (12,500,000) | - |
| **Net cash flow from financing activities** | | **26,318,820** | **162,599,436** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(2,529,743)** | **2,402,381** |
| **Cash and cash equivalents at beginning of year** | | 3,804,191 | 545,359 |
| **Effect of foreign exchange rate changes during the year** | | (115,785) | 856,451 |
| **Cash and cash equivalents at end of year*** | | **1,158,663** | **3,804,191** |

* Includes US$550,000 restricted cash. Refer to note 5 for further details.

The accompanying notes on pages 12 to 35 form an integral part of the Financial Statements.

## 1. GENERAL INFORMATION

FOIF LP (the "Master Fund") was registered in Guernsey on 7 May 2014 under The Limited Partnerships (Guernsey) Law, 1995, as amended. The Master Fund is regulated by the Guernsey Financial Services Commission as a registered closed ended collective investment scheme and is subject to the Registered Collective Investment Scheme Rules 2015 and under the Protection of Investors (Bailiwick of Guernsey) Law, 1987.

The Master Fund commenced operations following the enactment of the Amended and Restated Limited Partnership Agreement on 15 May 2014 (the "LPA") and is due to terminate on 12 June 2019. The Partnership may be dissolved earlier, pursuant to conditions in the LPA.

The Master Fund invests in US and European Collateralised Loan Obligations ("CLO") or other vehicles and structures which provide exposure to portfolios consisting primarily of US and European floating-rate senior secured loans and which may include non-recourse financing to achieve the Master Fund's investment objective of generating attractive risk-adjusted returns, principally through income distributions.

With effect from 15 May 2014, Fair Oaks Income Fund (GP) Limited (the "General Partner") was appointed as the General Partner and Fair Oaks Capital Ltd (the "Investment Adviser") was appointed as the Investment Adviser.

During the year ended 31 December 2016, the Master Fund accepted a new limited partner. The new limited partner was drawn down during March 2016 and April 2016. In accordance with the LPA the share allocated to the new limited partner was calculated as at the time of drawdown of their commitments by reference to the amount drawn as a percentage of the adjusted Net Asset Value ("NAV") of the Master Fund. The adjusted NAV is the latest available NAV as at date of drawdown, adjusted for establishment costs.

The Master Fund commenced trading on 12 June 2014.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

The Financial Statements, which give a true and fair view, have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and applicable law.

### Basis of Preparation

The Master Fund's Financial Statements have been prepared on a historical cost basis, except for financial assets and derivatives measured at fair value through profit or loss.

The preparation of Financial Statements in conformity with IFRS requires the General Partner to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates and judgements are discussed in Note 3. The principal accounting policies adopted are set out below.

The General Partner believes that the Annual Report and Financial Statements contains all of the information required to enable the Partners and potential investors to make an informed appraisal of the investment activities and profits and losses of the Master Fund for the period to which it relates and does not omit any matter or development of significance.

The Master Fund qualifies as an investment entity under the terms of IFRS 10 "Consolidated Financial Statements" and is therefore not required to prepare consolidated Financial Statements under IFRS.

### Reclassification

Certain amounts relating to 2015 in these financial statements have been reclassified to conform to the 2016 presentation.

**2. SIGNIFICANT ACCOUNTING POLICIES, continued**

**New Accounting Standards effective and adopted**

- IFRS 10 (amended), "Consolidated Financial Statements" (amendments effective for periods commencing on or after 1 January 2016);
- IFRS 12 (amended), "Disclosure of Interests in Other Entities" (amendments effective for periods commencing on or after 1 January 2016);
- IAS 1 (amended) "Presentation of Financial Statements" (amendments effective 1 January 2016); and
- IAS 28 (amended), "Investments in Associates and Joint Ventures" (amendments effective for periods commencing on or after 1 January 2016).

In addition, the IASB completed its Disclosure Initiative project in January 2016 and its September 2014 Annual Improvements to IFRSs project in September 2014. These projects have amended a number of existing standards and interpretations effective for accounting periods commencing on or after 1 January 2016.

The adoption of these amended standards has had no material impact on the Financial Statements of the Master Fund.

**New Accounting Standards and interpretations applicable to future reporting periods**

At the date of approval of these Financial Statements, the following standards and interpretations, which may be relevant to the Master Fund, but have not been applied in these Financial Statements, were in issue but not yet effective:

- IFRS 7 (amended), "Financial Instruments: Disclosures" (amendments relating to additional hedge accounting disclosures resulting from the introduction of the hedge accounting chapter in IFRS 9, effective for periods commencing on or after 1 January 2018, or on application of IFRS 9 if earlier);
- IFRS 9, 'Financial Instruments' (relating to the classification and measurement of financial assets and liabilities, effective for periods commencing on or after 1 January 2018). This standard specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39 'Financial Statements: Recognition and Measurement' ("IAS 39");
- IFRS 15, "Revenue from Contracts with Customers" (effective for periods commencing on or after 1 January 2018);
- IAS 39 (amended), "Financial Instruments: Recognition and Measurement" (amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception, effective for periods commencing on or after 1 January 2018, or on application of IFRS 9 if earlier).

In addition, the IASB completed its Disclosure Initiative project in January 2016 and its Annual Improvements 2014-2016 Cycle project in December 2016. These projects have amended a number of existing standards and interpretations effective for accounting periods commencing on or after 1 January 2017 or 1 January 2018.

The General Partner expects that the adoption of these standards in a future period will not have a material impact on the Financial Statements of the Master Fund as the majority of the Master Fund's financial assets are designated at fair value through profit or loss.

**Investment Income**

Investment income comprises interest income receivable on the Master Fund's CLO investments and from cash and cash equivalents.

Interest income on CLO investments is recognised using the effective interest rate method.

The effective interest rate is calculated using estimated cash flows, considering the expected life of the financial asset and future potential credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate and all other premiums or discounts.

Investment income is recognised in the Statement of Comprehensive Income.

## 2. SIGNIFICANT ACCOUNTING POLICIES, continued

**Net Gains on Financial Assets at Fair Value through Profit or Loss**

Net gains on financial assets at fair value through profit or loss includes all realised and unrealised fair value changes, foreign exchange gains/(losses), but excludes interest.

Net realised gains/(losses) from financial assets at fair value through profit or loss are calculated using the average cost method and recognised in the Statement of Comprehensive Income.

**Net Gains on Derivatives at Fair Value through Profit or Loss and Foreign Exchange**

Net gains on derivatives at fair value through profit or loss and foreign exchange includes changes in the fair value of the forward currency contracts and foreign exchange differences other than on financial assets at fair value through profit or loss.

Net gains on derivatives at fair value through profit or loss and foreign exchange are recognised in the Statement of Comprehensive Income.

**Expenses**

Expenses of the Master Fund are charged through profit or loss in the Statement of Comprehensive Income on an accruals basis.

**Cash and Cash Equivalents**

Cash comprises current deposits with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investments or other purposes.

**Financial Assets and Liabilities**

***Classification***

Financial assets and liabilities are classified into categories in accordance with IAS 39.

The category of financial assets and financial liabilities at fair value through profit or loss comprises:

*Financial assets at fair value through profit or loss*

Financial assets classified in this category includes derivatives and those designated by management on initial recognition as part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented investment strategy. Financial assets designated at fair value through profit or loss comprises investments in CLOs. Subsidiaries of the Master Fund are accounted for at fair value through profit or loss in accordance with IAS 39. As the Master Fund's investment in subsidiaries are not held for trading, they are presented on an aggregate basis in the Financial Statements as designated at fair value through profit or loss financial assets, as all are managed on a fair value basis.

The Master Fund does not designate any derivatives as hedges for hedge accounting purposes as described under IAS 39. Derivatives include forward currency contracts. The fair value of forward currency contracts is calculated taking into account the difference between the contracted rate and the current forward rate that would close out the contract on the reporting date.

*Financial assets at amortised cost*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and they are carried at amortised cost. This category includes cash and cash equivalents and other receivables. The amortised cost of a financial asset is the amount at which the instrument is measured at initial recognition (its fair value) adjusted for initial direct costs, minus principal repayments, plus or minus the cumulative amortisation, using the effective interest rate method, of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

*Financial liabilities at amortised cost*

The Master Fund includes in this category expenses payable.

***Recognition and initial measurement***

Financial assets and financial liabilities are measured initially at fair value, usually being the transaction price, including transaction costs for items that will subsequently be measured at amortised cost, on the trade date. Transaction costs on financial assets at fair value through profit or loss are expensed immediately.

## 2. SIGNIFICANT ACCOUNTING POLICIES, continued

### Financial Assets and Liabilities, continued

***Subsequent measurement***

After initial measurement, financial assets classified at fair value through profit or loss are measured at their fair values. Changes in fair value are recorded within “Net gains/(losses) on financial assets at fair value through profit or loss” and “Net gains on derivatives at fair value through profit or loss and foreign exchange” in the Statement of Comprehensive Income.

***Fair Value Measurement***

‘Fair value’ is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Master Fund has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the fair value of an instrument is measured using the quoted price in an active market for that instrument. A market is regarded as ‘active’ if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Instruments quoted in an active market are valued at a mid price, because this price provides a reasonable approximation of the exit price.

If there is no quoted price in an active market, then the valuation techniques are used that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Transfers between levels of the fair value hierarchy are recognised as at the end of the reporting period during which the change has occurred.

***Derecognition***

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset 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.

### Investment in other entities

The Investment Entities exception requires that an investment entity that has determined that it is a parent under IFRS 10 shall not consolidate certain of its subsidiaries; instead it is required to measure its investment in these subsidiaries at fair value through profit or loss in accordance with IAS 39.

In order for the Investment Entities exception to be relevant to the Master Fund, it must first have determined that it is a parent entity, being an entity with control over another entity. IFRS 10’s single control model states that an entity has control over an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

At 31 December 2016, the General Partner had determined that four CLOs (31 December 2015: None) were subsidiaries, with details on how that conclusion was reached being set out in Note 7 – ‘Interests in Other Entities’.

Therefore, as a parent, the Master Fund had determined that it met the definition of an ‘investment entity’ under the Investment Entity Amendment as follows:

(a) It met the required criteria as follows:
- (i) It had obtained funds from one or more Limited Partners for the purpose of providing those Limited Partners with investment management services;
- (ii) It had committed to its Limited Partners that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- (iii) It measured and evaluated the performance of substantially all of its investments on a fair value basis.

Based on the above, in accordance with the Investment Entity Amendment, the Master Fund prepares individual financial statements only, with its investments in the subsidiaries measured at fair value through profit or loss.

**2. SIGNIFICANT ACCOUNTING POLICIES, continued**

**Foreign Currency**

***Functional and presentation currency***

The Financial Statements of the Master Fund are presented in the currency of the primary economic environment in which the Master Fund operates (the "functional currency"). The General Partner has considered the primary economic currency of the Master Fund and considered the currency in which the original finance was raised, distributions made, and ultimately what currency would be returned if the Master Fund was wound up. The General Partner has also considered the currency to which the investments are exposed. On balance, the General Partner believes US Dollar best represents the functional currency of the Master Fund. Therefore, the books and records are maintained in US Dollar and for the purpose of the Financial Statements the results and financial position of the Master Fund are presented in US Dollar, which has been selected as the presentation currency of the Master Fund. All foreign exchange differences relating to monetary items, including cash, other than investments at fair value through profit or loss, are presented in 'Net gains on derivatives at fair value through profit or loss and foreign exchange' in the Statement of Comprehensive Income.

***Translation of foreign currencies***

Foreign currency transactions are translated into the presentation currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

**Taxation**

The Master Fund is not subject to taxation and no provision for taxation has been made in the Financial Statements. Any taxation on income and capital is the responsibility of each individual Limited Partner. Any taxation of income received by the Master Fund that has been deducted at source is allocated to individual Limited Partners in accordance with the LPA.

**3. USE OF JUDGEMENTS AND ESTIMATES**

The preparation of Financial Statements in accordance with IFRS requires the General Partner to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the Financial Statements and income and expenses during the period. The estimates and associated assumptions are based on various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

The principal estimates and judgements are as follows:

**Judgements**

***Going Concern***

The General Partner has assessed the financial position of the Master Fund as at 31 December 2016 and the factors that may impact its performance in the forthcoming year and is of the opinion that it is appropriate to prepare these Financial Statements on a going concern basis.

**Investment in other entities**

At 31 December 2016, the General Partner was satisfied that the Master Fund met the definition of an investment entity, and had also concluded that four investments met the definition of a subsidiary in accordance with IFRS 10, with the remaining CLOs in which the Master Fund invests meeting the definition of structured entities in accordance with IFRS 12. These conclusions are further detailed in Note 7 – 'Interest in Other Entities'.

## 3. USE OF JUDGEMENTS AND ESTIMATES, continued

**Estimates**

***Fair value***

The fair values of financial assets are based on a third party independent pricing agent who uses a methodology that is a combination of matrix pricing as well as actual trade and market prices. For all other financial assets (which in 2016 and 2015 were limited to currency hedges), the Master Fund used independent third party valuations. The key inputs in arriving at the fair value prices of CLOs generally are probabilities of default ("PDs"), recovery rates, reinvestment rates and discount rates. Sensitivity analysis to fair values is provided in Note 6.

Financial assets for which market prices are available from a third party are valued monthly on the basis of such market prices. All of the Master Fund's portfolio is valued on the basis of valuations received on a monthly basis from the independent pricing agent or other third parties (in the case of currency hedges). The pricing agent may determine the valuation based on pricing models, which may or may not produce values that correspond to the prices that the Master Fund could obtain if it sought to liquidate such positions. Such valuations generally involve subjective judgements on key model inputs, particularly default and recovery rates, and may not be uniform.

The Investment Adviser reviews the market prices received from the independent pricing agent for reasonableness.

## 4. DISTRIBUTIONS

Pursuant to clause 12 of the LPA, all income proceeds and capital proceeds of the Master Fund (after payment of expenses and liabilities) are allocated to Limited Partners in accordance with their respective interests and applied in the following manner:

- first to the General Partner, until it has been paid its Priority Profit Share;
- second, to repay the Outstanding Loan;
- third, to the Limited Partners until the Limited Partners have reached their Preferred Return Threshold (the threshold which is reached when a Limited Partner has received an internal rate of return of 7%); and
- fourth, 85 per cent to the Limited Partners and 15 per cent to the Founder Partner.

Income proceeds of the Master Fund are distributed in accordance with the above as soon as practicable after each Quarter Date in each year in respect of the quarters ended on such dates, or more frequently at the discretion of the General Partner, with the aim of distributing all net income each year.

Capital Proceeds are distributed in accordance with the above as soon as practicable after the relevant amounts have been received by the Master Fund.

Fair Oaks Founder LP, a Guernsey limited partnership, has been established to act as the Founder Limited Partner of the Master Fund and is entitled to receive carried interest in accordance with the LPA, as outlined above.

During the year ended 31 December 2016, the Master Fund declared income distributions totalling US$52,951,643 (31 December 2015: US$28,759,883) to the Limited Partners, of which US$10,526,053 (31 December 2015: US$10,256,219) remained outstanding as at 31 December 2016.

During the year ended 31 December 2016, the Master Fund declared capital distributions totalling US$12,500,000 (31 December 2015: US$Nil) to the Limited Partners, of which US$Nil (31 December 2015: US$Nil) remained outstanding as at 31 December 2016.

## 5. FINANCIAL RISK MANAGEMENT

The General Partner has overall responsibility for the establishment and oversight of the Master Fund's risk management framework. The Master Fund's risk management policies are established to identify and analyse the risks faced by the Master Fund, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Master Fund's activities. Below is a non-exhaustive summary of the risks that the Master Fund is exposed to as a result of its use of financial assets:

**5. FINANCIAL RISK MANAGEMENT, continued**

**Market Risk**

Market risk is the risk of changes in market prices, resulting from movements in foreign exchange rates, interest rates and equity prices, affecting the Master Fund's income and/or the value of its holdings in financial assets.

The Master Fund's exposure to market risk comes mainly from movements in the value of its investments. Changes in credit spreads may further affect the Master Fund's net equity or net income directly through their impact on unrealised gains or losses on investments within the portfolio and therefore the Master Fund's ability to make gains on such investments, or indirectly through their impact on the Master Fund's ability to borrow and access capital (and its cost of capital).

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk. The strategy for the management of market risk is driven by its investment objective to generate attractive, risk-adjusted returns, principally through income distributions by seeking exposure to US and European CLOs or other vehicles and structures which provide exposure to portfolios consisting primarily of US and European floating-rate senior secured loans and which may include non-recourse financing. Market risk is managed on a daily basis by the General Partner in accordance with policies and procedures in place.

The General Partner seeks to mitigate market risk in the Master Fund generally by not making investments that would cause it to have exposure to a single corporate issuer exceeding 5 per cent of the aggregate gross assets at the time of investment. Special Purpose Vehicles such as CLOs are not considered corporate issuers. The Master Fund's market positions are monitored on a quarterly basis by the General Partner.

Derivatives are used to manage exposure to foreign currency risks and may also be used from time to time to manage interest rate risks. The instruments used during the year were forward foreign exchange contracts. The Master Fund does not apply hedge accounting.

*Interest Rate Risk*

The Master Fund is exposed to interest rate risk on a look-through basis to the underlying assets in the CLOs.

The majority of the Master Fund's financial assets are Income Notes and Mezzanine tranches of cash flow CLOs. The Master Fund's exposure to interest rate risk is significantly mitigated by the fact that the majority of the underlying loans in each CLO bear interest at floating Libor-based rates.

Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates, however, the underlying cash positions will not be affected.

As at 31 December 2016, the interest rate profile of the portfolio was as follows:

| | 31 December 2016 US$ | 31 December 2015 US$ |
|---|---|---|
| Investments with exposure to a floating interest rate | 411,806,313 | 275,519,805 |
| Financial assets at fair value through profit or loss | **411,806,313** | **275,519,805** |

The following table shows the General Partner's best estimate of the sensitivity of the portfolio to stressed changes in interest rates, with all other variables held constant. The table assumes parallel shifts in the respective forward yield curves.

| 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|
| Possible reasonable change in rate | Effect on net assets and profit or loss US$ | Possible reasonable change in rate | Effect on net assets and profit or loss US$ |
| -1% | 10,650,949 | -1% | 7,330,466 |
| 1% | 4,546,674 | 1% | 952,930 |

The change in methodology is to calculate the impact of a 1% interest rate change on the annual income generated by the Master Fund's CLO mezzanine and equity investments by using Intex to generate cash flow projections.

**5. FINANCIAL RISK MANAGEMENT, continued**

**Market Risk, continued**

*Currency risk*

Investments acquired are predominantly denominated in US Dollar. However, the Master Fund may also invest in underlying assets which are denominated in currencies other than the US Dollar (e.g. Euro). Accordingly, the value of such assets may be affected, favourably or unfavourably, by fluctuations in currency rates which, if unhedged, could have the potential to have a significant effect on returns. To reduce the impact on the Master Fund of currency fluctuations and the volatility of returns which may result from currency exposure, the General Partner may hedge the currency exposure of the assets of the Master Fund.

The Master Fund may bear a level of currency risk that could otherwise be hedged where the Investment Adviser considers that bearing such risks is advisable or is in the best interest of the Master Fund considering the liquidity risk that is attached to any derivative contracts that could be used (e.g. margin calls on those contracts). At 31 December 2016 and 31 December 2015, the Investment Adviser has put into place arrangements to hedge into US Dollar part of its Euro exposure associated with the Euro assets. There is no guarantee that hedging the currency exposure related to the Euro assets can continue to be performed in the future if volatility in the Euro/US Dollar cross rate is very high.

As at 31 December 2016, the total net foreign currency exposure was as follows:

| | 31 December 2016 US$ | 31 December 2015 US$ |
|---|---|---|
| **EUR Exposure** | | |
| Financial assets at fair value through profit or loss | 5,325,839 | 5,298,923 |
| Derivatives at fair value through profit or loss | (5,262,094) | (5,433,294) |
| Other payables | (39,339) | (40,719) |
| **Net EUR Exposure** | **24,406** | **(175,090)** |

| | 31 December 2016 US$ | 31 December 2015 US$ |
|---|---|---|
| **GBP Exposure** | | |
| Cash and cash equivalents | 955 | - |
| Other receivables | 9,107 | 17,992 |
| Other payables | (17,665) | (21,761) |
| **Net GBP Exposure** | **(7,603)** | **(3,769)** |
| | | |
| **NET EXPOSURE** | **16,803** | **(178,859)** |

As at 31 December 2016, the following commitments in respect of forward foreign exchange contracts were in place:

| Maturity Date | Contract amount | | Buy | Sell | Unrealised gain US$ |
|---|---|---|---|---|---|
| 12 January 2017 | EUR5,000,000 | US$5,527,000 | US Dollar | Euro | 264,906 |

As at 31 December 2015, the following commitments in respect of forward foreign exchange contracts were in place:

| Maturity Date | Contract amount | | Buy | Sell | Unrealised loss US$ |
|---|---|---|---|---|---|
| 5 February 2016 | EUR5,000,000 | US$5,382,000 | US Dollar | Euro | 51,294 |

### 5. FINANCIAL RISK MANAGEMENT, continued
**Market Risk, continued**
*Currency risk, continued*

| | Possible change in exchange rate | 31 December 2016 net exposure US$ | 31 December 2016 effect on net assets and profit or loss (if unhedged) US$ |
|---|---|---|---|
| EUR/US Dollar | +/- 5% | 24,406 | (+/-) 1,220 |
| GBP/US Dollar | +/- 15% | (7,603) | (+/-) (1,140) |

The sensitivity rate of 5% is regarded as reasonable due to the recent volatility of US Dollar against Euro.
The sensitivity rate of 15% is regarded as reasonable due to the recent volatility of US Dollar against Sterling.

| | Possible change in exchange rate | 31 December 2015 net exposure US$ | 31 December 2015 effect on net assets and profit or loss (if unhedged) US$ |
|---|---|---|---|
| EUR/US Dollar | +/- 5% | (175,090) | (+/-) 8,755 |
| GBP/US Dollar | +/- 5% | (3,769) | (+/-) 188 |

The following table highlights the split of currencies based on par value of loans in the portfolio:

| Currency | 31 December 2016 % | 31 December 2015 % |
|---|---|---|
| US Dollar | 98.7 | 98.1 |
| Euro | 1.3 | 1.9 |
| **Total** | **100.0** | **100.0** |

*Other price risks*
The risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial asset or its issuer, or factors affecting all similar financial assets traded in the market. The General Partner does not believe that the returns on investments are correlated to any specific index or other price variable.

If the value of the Master Fund's investments increased or decreased by +/- 1% at the year end, the impact on the NAV would be +/- US$4,118,063 (31 December 2015: +/- US$2,755,198).

**Credit and Counterparty Risk**
Credit risk is the risk that a counterparty to a financial asset will fail to discharge an obligation or commitment that it has entered into, resulting in a financial loss. It arises principally from debt securities held, and also from derivative financial assets and cash and cash equivalents. For risk management reporting purposes, all elements of credit risk exposure (such as individual obligation default risk, country risk and sector risk) are aggregated.

Credit risk is managed by dealing only with counterparties that meet the credit standards set out in the Master Fund's prospectus, and by taking collateral.

**5. FINANCIAL RISK MANAGEMENT, continued**

**Credit and Counterparty Risk, continued**

The table below analyses the Master Fund's maximum exposure to credit risk for the components of the Statement of Financial Position.

| | 31 December 2016 US$ | 31 December 2015 US$ |
|---|---|---|
| Cash and cash equivalents | 1,158,663 | 3,804,191 |
| Other receivables and prepayments | 10,403 | 372,269 |
| Derivatives at fair value through profit or loss | 264,906 | - |
| Financial assets at fair value through profit or loss | 411,806,313 | 275,519,805 |
| | **413,240,285** | **279,696,265** |

The cash and substantially all of the assets of the Master Fund are held by BNP Paribas Securities Services S.C.A., Guernsey Branch (the "Custodian"). Bankruptcy or insolvency of the Custodian may cause the Master Fund's rights with respect to securities held by the Custodian to be delayed or limited. This risk is managed by monitoring the credit quality and financial positions of the Custodian. The long-term rating of the Custodian as at 31 December 2016 was A1 as rated by Moody's (31 December 2015: Aa1) and A by Standard & Poor's (31 December 2015: AA+).

Credit risk is monitored on a quarterly basis by the General Partner and the Investment Adviser. If the credit risk is not in accordance with the investment policy or guidelines of the Master Fund, then the General Partner and Investment Adviser are obliged to rebalance the portfolio when determined to ensure that the portfolio is in compliance with the stated investment parameters.

The Master Fund's exposure to the credit risk of all of the underlying CLO investments based on the country of registration (not necessarily asset class exposure) is as follows:

| | 31 December 2016 US$ | 31 December 2015 US$ |
|---|---|---|
| United States of America | 406,480,474 | 270,220,882 |
| Europe | 5,325,839 | 5,298,923 |
| | **411,806,313** | **275,519,805** |

The underlying CLO investments geographical breakdown is as follows:

| **Country** | 31 December 2016 % | 31 December 2015 % |
|---|---|---|
| United States of America | 88.8 | 91.9 |
| Other | 3.3 | 2.3 |
| Canada | 2.9 | 1.6 |
| Luxembourg | 2.5 | 2.2 |
| United Kingdom | 1.3 | 1.2 |
| Netherlands | 1.2 | 0.8 |
| **Total** | **100.0** | **100.0** |

Source: CLO trustee reports. Based on the Master Fund's equity positions and weighted by CLO size and Master Fund's equity ownership percentage

The table below summarises the Master Fund's portfolio concentrations:

| | Maximum portfolio holdings of a single asset % of total portfolio | Average portfolio holdings % of total portfolio |
|---|---|---|
| 31 December 2016 | 5.68% | 1.79% |
| 31 December 2015 | 8.61% | 4.00% |

**5. FINANCIAL RISK MANAGEMENT, continued**

**Credit and Counterparty Risk, continued**

The table below summarises the portfolio by asset class and ratings of the portfolio:

| By Asset Class | 31 December 2016 US$ | 31 December 2015 US$ |
|---|---|---|
| Equity CLO | 240,178,427 | 215,819,398 |
| Mezzanine CLO | 171,627,886 | 52,283,397 |
| Term loan | - | 7,417,010 |
| | **411,806,313** | **275,519,805** |

The underlying CLO investments rating breakdown is as follows:

| Rating | 31 December 2016 % | 31 December 2015 % |
|---|---|---|
| B | 39.8 | 46.0 |
| B+ | 22.4 | 22.0 |
| BB- | 15.3 | 13.0 |
| B- | 8.9 | 7.0 |
| BB | 5.3 | 5.0 |
| BB+ | 2.9 | 3.0 |
| NR | 2.2 | 2.0 |
| CCC+ | 1.2 | 1.0 |
| CCC | 0.9 | - |
| BBB- | 0.5 | 1.0 |
| CCC- | 0.2 | - |
| D | 0.2 | - |
| BBB | 0.1 | - |
| CC | 0.1 | - |
| **Total** | **100.0** | **100.0** |

Source: CLO trustee reports. Based on the Master Fund's equity positions and weighted by CLO size and Master Fund's equity ownership percentage

The Master Fund's activities may give rise to settlement risk. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the majority of transactions, settlement risk is mitigated by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval and limit monitoring processes. Refer to pages 4 and 5 for further details.

**Liquidity Risk**

Liquidity risk is the risk that the Master Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The General Partner's approach to managing the liquidity of the Master Fund is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, including distributions due, without incurring unacceptable losses or risking damage to the Master Fund's reputation.

The Master Fund's financial assets include CLO investments, which may be illiquid.

Liquidity risk is managed on a daily basis by the General Partner in accordance with the policies and procedures in place. The General Partner, the Administrator and Investment Adviser monitor and forecast the Master Fund's cash balances, expenses and income from investments on a regular basis and specifically before approving any distribution to Limited Partners.

An amount of US$550,000 (31 December 2015: US$550,000) of the Master Fund's cash is held in a restricted account. RBSI holds this cash as collateral against potential losses on forward foreign exchange contracts.

## 5. FINANCIAL RISK MANAGEMENT, continued
### Liquidity Risk, continued

| 31 December 2016 | Less than 3 months US$ | 6 – 12 months US$ | 1 – 2 years US$ | 2 – 3 years US$ | 3 – 4 years US$ | 4 – 5 years US$ | Total US$ |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Financial assets at fair value through profit or loss | - | 2,737,521 | 66,581,614 | 122,246,137 | 145,381,758 | 74,859,283 | 411,806,313 |
| Derivatives at fair value through profit or loss | 264,906 | - | - | - | - | - | 264,906 |
| Other receivables and prepayments | 10,403 | - | - | - | - | - | 10,403 |
| Cash and cash equivalents | 1,158,663 | - | - | - | - | - | 1,158,663 |
| **Total financial assets** | **1,433,972** | **2,737,521** | **66,581,614** | **122,246,137** | **145,381,758** | **74,859,283** | **413,240,285** |
| **Financial liabilities** | | | | | | | |
| Other payables | - | (439,510) | - | - | - | - | (439,510) |
| Carried interest payable | - | - | - | - | - | (10,016,796) | (10,016,796) |
| Distribution payable | - | (10,526,053) | - | - | - | - | (10,526,053) |
| **Total financial liabilities** | **-** | **(10,965,563)** | **-** | **-** | **-** | **(10,016,796)** | **(20,982,359)** |
| **Liquidity gap** | **1,433,972** | **(8,228,042)** | **66,581,614** | **122,246,137** | **145,381,758** | **64,842,487** | **392,257,926** |
| **Total cumulative liquidity gap** | **1,433,972** | **(6,794,070)** | **59,787,544** | **182,033,681** | **327,415,439** | **392,257,926** | **392,257,926** |

| 31 December 2015 | Less than 3 months US$ | 6 – 12 months US$ | 2 – 3 years US$ | 3 – 4 years US$ | 4 – 5 years US$ | 5 – 6 years US$ | Total US$ |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Financial assets at fair value through profit or loss | - | 7,417,010 | 27,138,923 | 63,531,112 | 121,677,741 | 55,755,019 | 275,519,805 |
| Other receivables and prepayments | 372,269 | - | - | - | - | - | 372,269 |
| Cash and cash equivalents | 3,804,191 | - | - | - | - | - | 3,804,191 |
| **Total financial assets** | **4,176,460** | **7,417,010** | **27,138,923** | **63,531,112** | **121,677,741** | **55,755,019** | **279,696,265** |
| **Financial liabilities** | | | | | | | |
| Derivatives at fair value through profit or loss | (51,294) | - | - | - | - | - | (51,294) |
| Other payables | - | (319,215) | - | - | - | - | (319,215) |
| Distribution payable | - | (10,256,219) | - | - | - | - | (10,256,219) |
| **Total financial liabilities** | **(51,294)** | **(10,575,434)** | **-** | **-** | **-** | **-** | **(10,626,728)** |
| **Liquidity gap** | **4,125,166** | **(3,158,424)** | **27,138,923** | **63,531,112** | **121,677,741** | **55,755,019** | **269,069,537** |
| **Total cumulative liquidity gap** | **4,125,166** | **966,742** | **28,105,665** | **91,636,777** | **213,314,518** | **269,069,537** | **269,069,537** |

**5. FINANCIAL RISK MANAGEMENT, continued**

**Operational Risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Master Fund's activities relating to financial assets, either internally or on the part of service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour.

Operational risk is managed so as to balance the limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the General Partner. This responsibility is supported by the development of overall standards for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers.

The General Partner's assessment of the adequacy of the controls and processes in place at the service providers with respect to operational risk is carried out via regular discussions with the service providers and a review of the service providers' Service Organisation Controls ("SOC") 1 reports on internal controls, if available.

Substantially all of the assets of the Master Fund are held by BNP Paribas Securities Services S.C.A., Guernsey Branch in its capacity as the Custodian. The bankruptcy or insolvency of the Custodian may cause the Master Fund's rights with respect to the securities held by the Custodian to be limited. The General Partner and Investment Adviser monitor the credit ratings and capital adequacy of the Custodian on a quarterly basis, and review the findings documented in the SOC 1 report on the internal controls annually.

**Capital Management**

The General Partner's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the Master Fund. The Master Fund's capital is represented by the drawn down commitments of its Limited Partners. Capital is managed in accordance with the investment strategy, which focuses on direct and indirect investments in, and exposures to, a variety of assets selected for the purpose of generating cash flows for the Master Fund.

**Concentration Risk**

The Master Fund has diversified its exposure to industry sectors. The top 10 are as follows:

| **Industry** | **31 December 2016 %** | **31 December 2015 %** |
|---|---|---|
| Business equipment and services | 10.0 | 8.8 |
| Health care | 8.0 | 6.7 |
| Electronics / electrical | 7.4 | 6.5 |
| Chemical and plastics | 5.2 | 5.7 |
| Financial intermediaries | 5.3 | 4.7 |
| Telecommunications | 4.9 | 4.4 |
| Retailers (except food and drug) | 4.6 | 4.1 |
| Containers and glass | 4.5 | - |
| Lodging and casinos | 4.1 | - |
| Leisure goods / activities / movies | 3.8 | 4.8 |
| Cable and satellite television | - | 3.7 |
| Industrial equipment | - | 3.4 |
| | **57.8** | **52.8** |

Source: CLO trustee reports. Based on the Master Fund's equity positions and weighted by CLO size and Master Fund's equity ownership percentage

## 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The following table presents the movement in financial assets at fair value through profit or loss:

| | 31 December 2016 US$ | 31 December 2015 US$ |
|---|---|---|
| Cost at the start of the year | 304,651,671 | 124,653,956 |
| Purchases during the year | 104,695,561 | 237,296,170 |
| Sales during the year | (6,987,673) | (52,601,464) |
| Realised loss on sale of investments | (429,337) | (2,121,116) |
| Investment income | 57,256,241 | 24,387,904 |
| Coupon interest received and repayments | (72,447,557) | (26,963,779) |
| Amortised cost of investments at the end of the year | 386,738,906 | 304,651,671 |
| Net unrealised gains/(losses) on investments at the end of the year | 25,067,407 | (29,131,866) |
| Financial assets at fair value through profit or loss at the end of the year | **411,806,313** | **275,519,805** |
| | | |
| Realised loss on sale of sale of investments during the year | (429,337) | (2,121,116) |
| Movement in net unrealised gains/(losses) on investments during the year | 54,199,273 | (27,804,710) |
| Net gains/(losses) on financial assets at fair value through profit or loss | **53,769,936** | **(29,925,826)** |

IFRS 13 requires that a fair value hierarchy be established that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under IFRS 13 are set as follows:

– Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments;

– Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and

– Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

For CLOs that have been categorised as Level 2, fair value has been determined using independent broker quotes based on observable inputs. If it cannot be verified that the valuation is based significantly on observable inputs, then the investments would fall into Level 3.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement requires judgement, considering factors specific to the asset or liability.

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

## 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS, continued

The subordinated CLOs and fee notes are classified as Level 3 investments as they are bespoke instruments with significant unobservable inputs which generally involve a number of valuation assumptions, many of which are based on subjective judgements. Key model inputs include (but are not limited to): asset spreads; expected defaults; expected recovery rates; and the price of uncertainty or liquidity through the interest rate at which expected cash flows are discounted. These inputs are derived by reference to a variety of market sources. The method of valuation depends on the nature of the asset.

The following table analyses within the fair value hierarchy, the Master Fund's financial assets (by class, excluding cash and cash equivalents, other receivables and prepayments, carried interest payable, distribution payable and other payables) measured at fair value:

| | 31 December 2016 | | | |
|---|---|---|---|---|
| | Level 1<br>US$ | Level 2<br>US$ | Level 3<br>US$ | Total<br>US$ |
| Financial assets at fair value through profit or loss | - | 171,627,886 | 240,178,427 | 411,806,313 |
| Derivatives at fair value through profit or loss | - | 264,906 | - | 264,906 |
| **Total** | **-** | **171,892,792** | **240,178,427** | **412,071,219** |

| | 31 December 2015 | | | |
|---|---|---|---|---|
| | Level 1<br>US$ | Level 2<br>US$ | Level 3<br>US$ | Total<br>US$ |
| Financial assets at fair value through profit or loss | - | 59,700,407 | 215,819,398 | 275,519,805 |
| Derivatives at fair value through profit or loss | - | (51,294) | - | (51,294) |
| **Total** | **-** | **59,649,113** | **215,819,398** | **275,468,511** |

The following table presents the movement in Level 3 financial assets:

| | 31 December 2016<br>US$ | 31 December 2015<br>US$ |
|---|---|---|
| Opening Balance | 215,819,398 | 110,870,529 |
| Purchases | 10,062,500 | 179,947,230 |
| Sales | - | (45,567,009) |
| Investment income | 38,090,185 | 20,507,070 |
| Coupon interest received and repayments | (63,202,669) | (24,974,438) |
| Net realised losses on financial assets held at fair value through profit or loss | - | (1,674,991) |
| Net unrealised gains/(losses) on financial assets held at fair value through profit or loss | 39,409,013 | (23,288,993) |
| Closing Balance | **240,178,427** | **215,819,398** |
| | | |
| Unrealised gains/(losses) on financial assets held at fair value through profit or loss at the end of the year | 11,697,502 | (27,711,511) |

*Transfers between Level 1, 2 and 3*

There have been no transfers between levels during the years ended 31 December 2016 and 31 December 2015. Transfers between levels of the fair value hierarchy are recognised as at the end of the reporting period during which the change has occurred.

### 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS, continued

The following table analyses within the fair value hierarchy the Master Fund's assets and liabilities not measured at fair value but for which fair value is disclosed:

| | 31 December 2016 | | | |
|---|---|---|---|---|
| | **Level 1 US$** | **Level 2 US$** | **Level 3 US$** | **Total US$** |
| **Assets:** | | | | |
| Cash and cash equivalents | - | 1,158,663 | - | 1,158,663 |
| Other receivables and prepayments | - | 10,403 | - | 10,403 |
| **Total** | **-** | **1,169,066** | **-** | **1,169,066** |
| **Liabilities:** | | | | |
| Trade and other payables | - | 439,510 | - | 439,510 |
| Carried interest payable | - | 10,016,796 | - | 10,016,796 |
| Distributions payable | - | 10,526,053 | - | 10,526,053 |
| **Total** | **-** | **20,982,359** | **-** | **20,982,359** |

| | 31 December 2015 | | | |
|---|---|---|---|---|
| | **Level 1 US$** | **Level 2 US$** | **Level 3 US$** | **Total US$** |
| **Assets:** | | | | |
| Cash and cash equivalents | - | 3,804,191 | - | 3,804,191 |
| Other receivables and prepayments | - | 372,269 | - | 372,269 |
| **Total** | **-** | **4,176,460** | **-** | **4,176,460** |
| **Liabilities:** | | | | |
| Trade and other payables | - | 319,215 | - | 319,215 |
| Distributions payable | - | 10,256,219 | - | 10,256,219 |
| **Total** | **-** | **10,575,434** | **-** | **10,575,434** |

The assets and liabilities included in the above table are carried at amortised cost; their carrying values are a reasonable approximation of fair value.

Cash and cash equivalents include deposits held with banks.

Trade and other payables represent the contractual amounts and obligations due by the Master Fund for settlement of trades and expenses.

Carried interest payable represent carried interest approved by the General Partner for payment to the Limited Partners.

Distributions payable represent distributions approved by the General Partner for payment to the Limited Partners.

### 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS, continued

The Master Fund has engaged an independent third party to provide valuations for its CLO investments. The following table summarises, in the General Partner's opinion, the valuation methodologies used by the independent third party to value the Master Fund's investments categorised in Level 3 as at 31 December 2016:

| Asset Class | Fair Value US$ | Unobservable inputs | Ranges | Average | Sensitivity to changes in significant unobservable inputs |
|---|---|---|---|---|---|
| Income Note CLOs | | | | | |
| United States of America | 233,365,488 | Prices provided by a third party agent | US$0.5800 – US$0.9000 | US$0.7896 | 1% increase/decrease will have a fair value impact of +/- US$2,333,655 |
| Europe | 5,325,839 | Prices provided by a third party agent | €0.8300 | €0.8300 | 1% increase/decrease will have a fair value impact of +/- US$53,258 |
| Sub Fee Notes | | | | | |
| United States of America | 1,487,100 | Prices provided by a third party agent | US$0.0260 – US$0.0480 | US$0.0373 | 1% increase/decrease will have a fair value impact of +/- US$14,871 |
| | 240,178,427 | | | | |

The following table summarises, in the General Partner's opinion, the valuation methodologies used by the independent third party to value the Master Fund's investments categorised in Level 3 as at 31 December 2015:

| Asset Class | Fair Value US$ | Unobservable inputs | Ranges | Average | Sensitivity to changes in significant unobservable inputs |
|---|---|---|---|---|---|
| Income Note CLOs | | | | | |
| United States of America | 208,663,900 | Prices provided by a third party agent | US$0.5500 – US$0.8500 | US$0.7372 | 1% increase/decrease will have a fair value impact of +/- US$2,086,639 |
| Europe | 5,298,923 | Prices provided by a third party agent | €0.8000 | €0.8000 | 1% increase/decrease will have a fair value impact of +/- US$52,989 |
| Sub Fee Notes | | | | | |
| United States of America | 1,856,575 | Prices provided by a third party agent | US$0.0345 – US$0.0580 | US$0.0466 | 1% increase/decrease will have a fair value impact of +/- US$18,566 |
| | 215,819,398 | | | | |

### 7. INTERESTS IN OTHER ENTITIES

**Interest in unconsolidated structured entities**

IFRS 12 defines a structured entity as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to the administrative tasks only and the relevant activities are directed by means of contractual agreements. A structured entity often has some of the following features or attributes:

(a) restricted activities;
(b) a narrow and well defined objective;
(c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and
(d) financing in the form of multiple contractually linked instruments that create concentrations of credit or other risks.

*Involvement with unconsolidated structured entities*

The General Partner has concluded that the CLOs in which it invests, but which it does not consolidate, meet the definition of structured entities because:

- The voting rights in the CLOs are not the dominant rights in deciding who controls them, as they relate to administrative tasks only;
- The CLOs' activities are restricted by its Prospectus; and
- The CLOs have narrow and well-defined objectives to provide investment opportunities to investors.

*Subsidiary undertakings*

At 31 December 2016, the Master Fund had four (31 December 2015: None) subsidiary undertakings as defined under IFRS 10. To meet the definition of a subsidiary under the single control model of IFRS 10, the investor has to control the investee. Control involves power, exposure to variability of returns and a linkage between the two:

(i) The investor has existing rights that give it the ability to direct the relevant activities that significantly affect the investee's returns;
(ii) The investor has exposure or rights to variable returns from its involvement with the investee; and
(iii) The investor has the ability to use its power over the investee to affect the amount of the investor's returns.

In the case of Arrowpoint CLO 2014-3 Limited, Covenant Credit Partners CLO II Limited, Allegro CLO II Limited and TICP CLO IV Limited (the "entities"), the relevant activities of each are the investment decisions which are made by its collateral managers. Power over the entities' relevant activities is attributed to the Master Fund through a call option it has, as the holder of the majority of the preference shares of each of these entities. The impact of these call options is that it gives the Master Fund the ability to direct or stop the early termination of each of the subsidiary deals, and hence, decision making power on the life of the deals, and therefore the ability to control the variability of returns.

To determine control, there had to be linkage between power and the exposure to the risks and rewards. The main linkage noted is from the call options which would allow the Master Fund to control the contractual payments of returns, and it is therefore an indication of linkage between power and variability in returns.

The Master Fund is also considered to have contingent power over the four entities, due to the fact that it could remove Arrowpoint CLO 2014-3 Limited, Covenant Credit Partners CLO II Limited, Allegro CLO II Limited and TICP CLO IV Limited's collateral managers in certain contingent circumstances as the Master Fund is the majority shareholder. It can therefore be considered that the Master Fund has contingent power which may impact the variability of returns in the future.

*Investment entity status*

To adopt the amendment to IFRS 10 and to be exempt from preparing consolidated Financial Statements, the Master Fund must meet the definition of an investment entity. The General Partner is satisfied that it meets the required criteria of an investment entity.

## 7. INTERESTS IN OTHER ENTITIES, continued

### Interest in unconsolidated structured entities, continued

Below is a summary of the Master Fund's holdings in non-subsidiary unconsolidated structured entities as at 31 December 2016:

| Structured Entity ("SE") | Line position in Statement of Financial Position | Nature | No of investments | Range of the size of SEs Notional US$ | Average notional of SEs US$ | Fair Value US$ | % of total Financial Assets at Fair Value through Profit or Loss | Maximum exposure to losses US$ | Income US$ | Type of Income | Other |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Mezzanine Note CLOs | | | | | | | | | | | |
| *North America* | | | | | | | | | | | |
| | Financial assets at fair value through profit or loss | Broadly Syndicated sub-Investment Grade Secured Loans - USD | 35 | 1,500,000 – 13,000,000 | 5,792,857 | 168,120,196 | 40.83% | 168,120,196 | 18,477,315 | Interest income | Non-recourse* |
| **Total Mezzanine Note CLOs** | **Financial assets at fair value through profit or loss** | | **35** | **1,500,000 – 13,000,000** | **5,792,857** | **168,120,196** | **40.83%** | **168,120,196** | **18,477,315** | | **Non-recourse*** |
| Income Note CLOs | | | | | | | | | | | |
| *North America* | | | | | | | | | | | |
| | Financial assets at fair value through profit or loss | Broadly Syndicated sub-Investment Grade Secured Loans - USD | 10 | 4,000,000 – 31,000,000 | 21,706,250 | 165,379,725 | 40.16% | 165,379,725 | 24,401,197 | Residual interest income | Non-recourse* |
| *Europe* | | | | | | | | | | | |
| | Financial assets at fair value through profit or loss | Broadly Syndicated sub-Investment Grade Secured Loans - EUR | 1 | 6,412,015 | 6,412,015 | 5,325,839 | 1.29% | 5,325,839 | 1,180,662 | Residual interest income | Non-recourse* |
| **Total Income Note CLOs** | **Financial assets at fair value through profit or loss** | | **11** | **4,000,000 – 31,000,000** | **20,315,865** | **170,705,564** | **41.45%** | **170,705,564** | **25,581,859** | | **Non-recourse*** |
| **Total** | | | **46** | | | **338,825,760**** | **82.28%** | | **44,059,174** | | |

The Master Fund has a percentage range of 0.98% to 6.43% notional holding out of the entire outstanding notional balances of the non-subsidiary unconsolidated structured entities as at 31 December 2016.

During the year ended 31 December 2016, the Master Fund did not provide financial support to the non-subsidiary unconsolidated structured entities and has no intention of providing financial support or other support.

* The investments are non-recourse securities with no contingent liabilities, where the Master Fund's maximum loss is capped at the current carrying value.
** The Master Fund's total fair value holding in non-subsidiary unconsolidated structured entities (above), plus the total fair value holding of its unconsolidated structured entities subsidiaries on page 31 agrees to the financial assets at fair value through profit or loss in the Statement of Financial Position.

## 7. INTERESTS IN OTHER ENTITIES, continued

**Interest in unconsolidated structured entities, continued**

Summary of the Master Fund's holdings in unconsolidated subsidiaries as at 31 December 2016:

| Structured Entity ("SE") | Line position in Statement of Financial Position | Nature | No of investments | Range of the size of SEs Notional US$ | Average notional of SEs US$ | Fair Value US$ | % of total Financial Assets at Fair Value through Profit or Loss | Maximum exposure to losses US$ | Income US$ | Type of Income | Other |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Mezzanine Note CLOs | | | | | | | | | | | |
| *North America* | | | | | | | | | | | |
| | Financial assets at fair value through profit or loss | Broadly Syndicated sub-Investment Grade Secured Loans - USD | 1 | 4,300,000 | 4,300,000 | 3,507,690 | 0.85% | 3,507,690 | 395,318 | Interest income | Non-recourse* |
| **Total Mezzanine Note CLOs** | **Financial assets at fair value through profit or loss** | | 1 | **4,300,000** | **4,300,000** | **3,507,690** | **0.85%** | **3,507,690** | **395,318** | | **Non-recourse*** |
| Income Note CLOs | | | | | | | | | | | |
| *North America* | | | | | | | | | | | |
| | Financial assets at fair value through profit or loss | Broadly Syndicated sub-Investment Grade Secured Loans - USD | 7 | 2,549,020 – 26,000,000 | 16,907,003 | 69,472,863 | 16.87% | 69,472,863 | 12,508,325 | Residual interest income | Non recourse* |
| **Total Income Note CLOs** | **Financial assets at fair value through profit or loss** | | **7** | **2,549,020 – 26,000,000** | **16,907,003** | **69,472,863** | **16.87%** | **69,472,863** | **12,508,325** | | **Non recourse*** |
| **Total** | | | **8** | | | **72,980,553**** | **17.72%** | | **12,903,643** | | |

The Master Fund has a percentage range of 0.49% to 5.06% notional holding out of the entire outstanding notional balances of the subsidiaries, Arrowpoint CLO 2014-3 Limited, Covenant Credit Partners CLO II Limited, Allegro CLO II Limited and TICP CLO IV. Limited as at 31 December 2016.

There were no purchases or sales of investments in subsidiaries during the year ended 31 December 2016.

For the financial year ended 31 December 2016, the Master Fund did not provide financial support to its unconsolidated structured entity subsidiaries and has no intention of providing financial or other support.

* The investments are non recourse securities with no contingent liabilities, where the Master Fund's maximum loss is capped at the current carrying value.
** The Master Fund's total fair value holding in non subsidiary unconsolidated structured entities on page 30, plus the total fair value holding of its unconsolidated subsidiary (above), agrees to the financial assets at fair value through profit or loss in the Statement of Financial Position.

## 7. INTERESTS IN OTHER ENTITIES, continued

### Interest in unconsolidated structured entities, continued

Below is a summary of the Master Fund's holdings in non-subsidiary unconsolidated structured entities as at 31 December 2015:

| Structured Entity ("SE") | Line position in Statement of Financial Position | Nature | No of investments | Range of the size of SEs Notional US$ | Average notional of SEs US$ | Fair Value US$ | % of total Financial Assets at Fair Value through Profit or Loss | Maximum exposure to losses US$ | Income US$ | Type of Income | Other |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Mezzanine Note CLOs | | | | | | | | | | | |
| *North America* | | | | | | | | | | | |
| | Financial assets at fair value through profit or loss | Broadly Syndicated sub-Investment Grade Secured Loans - USD | 7 | 4,300,000 – 12,600,000 | 9,035,714 | 52,283,397 | 18.98% | 52,283,397 | 3,179,077 | Interest income | Non-recourse* |
| **Total Mezzanine Note CLOs** | **Financial assets at fair value through profit or loss** | | **7** | **4,300,000 – 12,600,000** | **9,035,714** | **52,283,397** | **18.98%** | **52,283,397** | **3,179,077** | | **Non-recourse*** |
| Income Note CLOs | | | | | | | | | | | |
| *North America* | | | | | | | | | | | |
| | Financial assets at fair value through profit or loss | Broadly Syndicated sub-Investment Grade Secured Loans - USD | 16 | 2,549,020 – 31,000,000 | 23,065,109 | 210,520,475 | 76.41% | 210,520,475 | 19,864,513 | Residual interest income | Non-recourse* |
| *Europe* | | | | | | | | | | | |
| | Financial assets at fair value through profit or loss | Broadly Syndicated sub-Investment Grade Secured Loans - EUR | 1 | 6,623,654 | 6,623,654 | 5,298,923 | 1.92% | 5,298,923 | 325,195 | Residual interest income | Non-recourse* |
| **Total Income Note CLOs** | **Financial assets at fair value through profit or loss** | | **17** | **2,549,020 – 31,000,000** | **21,969,012** | **215,819,398** | **78.33%** | **215,819,398** | **20,189,708** | | **Non-recourse*** |
| Term Loan | | | | | | | | | | | |
| *North America* | | | | | | | | | | | |
| | Financial assets at fair value through profit or loss | Broadly Syndicated sub-Investment Grade Secured Loans - USD | 1 | 8,241,122 | 8,241,122 | 7,417,010 | 2.69% | 7,417,000 | 687,347 | Interest income | Non-recourse* |
| **Total Term Loan** | **Financial assets at fair value through profit or loss** | | **1** | **8,241,122** | **8,241,122** | **7,417,010** | **2.69%** | **7,417,000** | **687,347** | | **Non-recourse*** |
| **Total** | | | **25** | | | **275,519,805**** | **100.00%** | | **24,056,132** | | |

The Master Fund has a percentage range of 0.5% to 7.6% notional holding out of the entire outstanding notional balances of the structured entities as at 31 December 2015.

During the period ended 31 December 2015, the Master Fund did not provide financial support to the unconsolidated structured entities and has no intention of providing financial support or other support.

* The investments are non-recourse securities with no contingent liabilities, where the Master Fund's maximum loss is capped at the current carrying value.
** The Master Fund's total fair value holding in non-subsidiary unconsolidated structured entities (above), agrees to the financial assets at fair value through profit or loss in the Statement of Financial Position.

## 8. RELATED PARTIES AND OTHER MATERIAL CONTRACTS

**Transactions with key management personnel**

*General Partner*

The General Partner of the Master Fund is entitled to receive a Priority Profit Share from the Master Fund of 1.5% per annum of the NAV, subject to the rebates for certain Limited Partners as detailed below, calculated and payable on the last business day of each month. The Priority Profit Share (after rebates) paid during the year amounted to US$3,571,398 (31 December 2015: US$1,798,577) of which US$350,564 (31 December 2015: US$228,730) was included in other payables at 31 December 2016. During the year, the Master Fund paid expenses of US$163,878 (31 December 2015: US$235,812) on behalf of the General Partner. In accordance with clause 8.1.2 of the LPA, the Master Fund reimburses the General Partner for all the post set up operating expenses of the General Partner.

The General Partner may make rebate arrangements with any Limited Partner. In particular, any Limited Partner that makes a commitment of US$100 million or more, shall be entitled to a rebate of part of its share of the Priority Profit Share such that it will pay a reduced Priority Profit Share of 1% per annum of the Master Fund NAV.

During the year ended 31 December 2016, the Master Fund accepted a new limited partner. The new limited partner was drawn down during March 2016 and April 2016. In accordance with the LPA, the share allocated to the new limited partner was calculated as at the time of drawdown of their commitments by reference to the amount drawn as a percentage of the adjusted NAV of the Master Fund. The adjusted NAV is the latest available NAV as at date of drawdown, adjusted for establishment costs. At 31 December 2016, the Company had a 74.13% (31 December 2015: 100%) and the new limited partner had a 25.87% (31 December 2015: 0%) holding in the Master Fund.

During the year ended 31 December 2016 and 31 December 2015, one Limited Partner had committed over US$100 million and received a rebate of US$1,713,772 (31 December 2015: US$937,002) of its Priority Profit Share.

The Master Fund also pays the Founder Partner a carried interest equal to 15 per cent of cash available to be distributed (after payment of expenses and management fees) after Limited Partners have received a Preferred Return. The calculation of the Preferred Return threshold will be based solely on distributions and not on NAV calculations so the Master Fund will not pay any carried interest until its investors have realised the amounts drawn down for investments and their Preferred Returns. As at 31 December 2016, US$10,016,796 (31 December 2015: US$Nil) carried interest had been accrued for the benefit of the Founder Partner.

**Other Material Contracts**

*Administrator*

With effect from 15 May 2014, Praxis Fund Services Limited (the “Administrator”) was appointed as the administrator. The Administrator shall be entitled to receive a time based fee quarterly in arrears for all Company Secretarial services. The Administrator is also entitled to a fee of 0.03% of the NAV of the Master Fund per annum, subject to a minimum annual fee of US$64,260, payable quarterly in arrears for Administration and Accounting services. The overall charge for the above-mentioned fees for the Master Fund and the amounts due are disclosed below for information purposes.

*Custodian*

On 15 December 2015, BNP Paribas Securities Services S.C.A., Guernsey Branch (the “Custodian”), replaced Royal Bank of Canada (Channel Islands) Limited (the “former Custodian”) as Custodian.

The former Custodian was entitled to receive aggregate fees of up to 0.03% per annum of the NAV of the Master Fund for the provision of trustee and custodial services to the Master Fund, subject to a minimum annual fee of US$30,000. In addition, the former Custodian charged a one-off fee of US US$7,500 for the set-up of the Master Fund.

With effect from 15 December 2015, the Custodian was entitled to receive aggregate fees of up to 0.03% per annum of the NAV of the Master Fund for the provision of trustee and custodial services to the Master Fund, subject to a minimum annual fee of US$30,000.

### 8. RELATED PARTIES AND OTHER MATERIAL CONTRACTS

**Other Material Contracts, continued**

The overall charge for the above-mentioned fees and the amounts due as at the end of the year for information purposes are as follows:

| | 31 December 2016 US$ | 31 December 2015 US$ |
|---|---|---|
| **CHARGE FOR THE YEAR** | | |
| Priority profit share | 3,571,398 | 1,798,577 |
| Carried interest | 10,016,796 | - |
| Administration fees | 118,161 | 68,320 |
| Custodian fees | 100,635 | 54,753 |
| **OUTSTANDING FEES** | | |
| Priority profit share | - | - |
| Carried interest | 10,016,796 | - |
| Administration fees | 10,025 | 6,862 |
| Custodian fees | 20,170 | 19,343 |

### 9. CONTRIBUTED CAPITAL

*Limited Partners*

Each partner shall contribute the amount of its Capital Contribution on its admission as a Partner as specified by the General Partner, being 0.001 per cent of its Commitment.

No interest shall be paid or payable on any Capital Contribution or on any amount whether of Net Income or Capital Gain allocated to any Partner but not yet distributed to it.

| 31 December 2016: | Contributed Capital US$ | Loan Capital US$ | Total US$ |
|---|---|---|---|
| Opening Balance | 2,998 | 299,824,886 | 299,827,884 |
| Net contributions during the year | 915 | 91,499,085 | 91,500,000 |
| Closing balance | **3,913** | **391,323,971** | **391,327,884** |

| 31 December 2015: | Contributed Capital US$ | Loan Capital US$ | Total US$ |
|---|---|---|---|
| Opening Balance | 1,187 | 118,723,597 | 118,724,784 |
| Net contributions during the year | 1,811 | 181,101,289 | 181,103,100 |
| Closing balance | **2,998** | **299,824,886** | **299,827,884** |

As at 31 December 2016 and 31 December 2015, there were no undrawn commitments. Loan Commitments shall be advanced in such tranches and on such dates as shall be determined by the General Partner and specified in a Drawdown Notice given by the General Partner to the Investors not less than 10 Business Days prior to the date so specified.

*The Founder Partner*

The Founder Partner has committed to contribute US$691 (31 December 2015: US$450) of capital to the Master Fund, of which US$62 (31 December 2015: US$450) remained outstanding at 31 December 2016. On the final closing date (12 June 2016) the Founder Partner was required to increase or be repaid part of its Capital Contribution so that from and after the final closing date, the aggregate amount of the Capital Contribution subscribed by it equals 15 per cent of the total Capital Contributions subscribed or committed to be subscribed to the Master Fund at the final closing date. During the year ended 31 December 2016, the Founder Partner paid US$629 (31 December 2015: US$Nil) of capital to the Master Fund.

### 10. TRADE AND OTHER PAYABLES

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| | US$ | US$ |
| Priority profit share payable (Note 8) | 350,564 | 228,730 |
| Audit fees payable | 39,339 | 40,719 |
| Administration fees payable (Note 8) | 10,025 | 6,862 |
| Custodian fee payable (Note 8) | 20,170 | 19,343 |
| Sundry expenses payable | 19,412 | 23,561 |
| | **439,510** | **319,215** |

### 11. SUBSEQUENT EVENTS

There were no significant events since year end which would require revision of the figures or disclosures in the Financial Statements.

# FOIF LP
## PORTFOLIO STATEMENT (unaudited)
## As at 31 December 2016

| | Market value 2016 US$ | Percentage of NAV 2016 % |
|---|---|---|
| **Euro** | | |
| Harvest CLO VII Limited | 5,325,839 | 1.36 |
| | | |
| **US Dollar** | | |
| AIMCO CLO Ser 15 A | 22,500,000 | 5.74 |
| Allegro CLO I Limited 0% 21/01/2027* | 18,512,000 | 4.72 |
| AMMC 2014-15X Sub CLO | 23,250,000 | 5.93 |
| Spid 2013-12x F 5.5284% 15/04/2025 | 5,658,668 | 1.44 |
| APID 2013-14A F Jan 16 Coupon 5.872% | 1,235,101 | 0.31 |
| Apidos CLO XXII FR GTD MEZZ 10/2027 | 6,202,147 | 1.58 |
| ARES 2013-3a F Jan 16 Coupon 5.8711% 10/17/2024 | 6,370,404 | 1.62 |
| ARES 2015-32X E7 .1682% | 3,252,823 | 0.83 |
| ARES 2015-35X SUB 0% 15/10/2025 | 23,400,000 | 5.97 |
| ARES XXXVII CLO FR CLO 10/2026 USD REG S 'E' | 11,761,162 | 3.00 |
| Arrowpoint CLO Limited 0% 15/10/2026 Ser2014-3A* | 12,505,000 | 3.19 |
| Arrowpoint CLO 2015-4 Sub Fee Notes | 503,100 | 0.13 |
| Arrowpoint CLO Limited 0% 15/10/2026 Ser 2014-3A* | 3,965,000 | 1.01 |
| Arrowpoint CLO Limited 20/04/19 2015-4 | 15,093,000 | 3.85 |
| Arrowpoint CLO Limited 6.2338% 15/10/2026 2014-3A* | 3,507,691 | 0.89 |
| AWPT 0.13% 15/10/2026* | 984,000 | 0.25 |
| Babsn 2015-2x F 7.38435% 7/20/2027 | 1,303,426 | 0.33 |
| Cgms 2013-4x F Apr 16 Coupon 5.82835% 10/15/2025 | 1,633,195 | 0.42 |
| Cgms 2015-1a F 6.8344% | 3,143,497 | 0.80 |
| Covenant Credit Partners 2 2014-2X* | 1,656,863 | 0.42 |
| Covenant Credit Partners 2014-2X Sub* | 15,080,000 | 3.84 |
| Drslf 2012-24rx Fr 8.5182% 11/15/2023 | 2,737,521 | 0.70 |
| Drslf 2013-26a F 5.122% 7/15/2025 | 2,768,706 | 0.71 |
| Drslf 2013-30x F 6.126% | 4,096,013 | 1.04 |
| Drslf 2015-37a F 7.02835% 4/15/2027 | 1,307,947 | 0.33 |
| Lcg 2014-1a E Apr 16 Coupon 6.38435% 4/20/2026 | 4,014,391 | 1.02 |
| Lcg 2014-1a E Apr 16 Coupon 6.38435% 4/20/2026 | 2,007,196 | 0.51 |
| INGIM 2013-3A E JAN 16 COUPON 6.1196% 1/18/2026 | 6,988,195 | 1.78 |
| INGIM 2014-1A E 5.88285% 4/18/2026 | 4,488,735 | 1.14 |
| MIDO 2014-3A F 6.63485% 7/21/2026 | 8,720,765 | 2.22 |
| NEUB 0% 15/07/27 | 3,240,000 | 0.83 |
| NEUB 2014-16X F 5.322% | 3,793,850 | 0.97 |
| NEUB 2015-20X F 7.9719% 01/15/2028 | 8,866,339 | 2.26 |
| NEUB 2015-20X SUB 0% 01/15/2028 | 22,950,000 | 5.85 |
| NEUB TV 15-150128 | 11,250,000 | 2.87 |
| Neuberger CLO 2015-19X SUB | 21,353,625 | 5.44 |
| OCT17 2013-1X F 5.7881% 10/25/2025 | 1,584,517 | 0.40 |
| OCT18 2013-1X E MAY 16 COUPON 6.6261% 12/16/2024 | 4,011,735 | 1.02 |
| OZLM 2015-13A E 7.1366% | 3,090,798 | 0.79 |
| OZLM Limited 2014-8 X Class E | 7,967,200 | 2.03 |
| Shackleton 2015-8X F 7.1593% 10/20/2027 | 7,328,470 | 1.87 |
| Shackleton 2015-8X SUB 0% 10/20/2027 | 21,840,000 | 5.57 |
| SNDPT 2014-1X F APR 16 COUPON 5.33285% 4/18/2026 | 4,740,110 | 1.21 |
| SNDPT 2014-2A F JAN 16 COUPON 6.0238% 10/20/2026 | 3,936,940 | 1.00 |
| SNDPT 2014-2X F APR 16 COUPON 6.03435% 10/20/2026 | 3,149,552 | 0.80 |
| SNDPT 2015-1A F 7.472% 4/15/2027 | 2,096,387 | 0.53 |
| SYMP 2013-12A F 5.772% 10/15/2025 | 10,497,435 | 2.68 |
| TICP 2015-1X F 6.97575% 07/20/2027 | 8,811,570 | 2.25 |
| TICP 2015-1X SUB 0% 07/20/2027* | 16,770,000 | 4.29 |
| TICP 6.1238 07/20/2027 | 6,415,396 | 1.64 |
| VOYA 2014-2X E 6.1696% 7/17/2026 | 4,131,586 | 1.05 |
| VOYA 2015-1X E 7.13285% 4/18/2027 | 5,902,179 | 1.50 |
| WINDR 2014-2X F APR 16 COUPON 6.72835% 7/15/2026 | 4,106,239 | 1.05 |
| | **411,806,313** | **104.98** |
| | | |
| Net derivatives assets at fair value through profit or loss | 264,906 | 0.07 |
| | | |
| | **412,071,219** | **105.05** |

* Subsidiary undertaking as defined under IFRS 10

# FOIF LP
## MANAGEMENT AND ADMINISTRATION

**Directors of the General Partner**
Christopher Waldron (Independent non-executive Chairman)
Miguel Ramos Fuentenebro (Non-independent non-executive Director)
Miguel Arraya (Independent non-executive Director)

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**Administrator and Secretary**
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**Investment Adviser**
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**General Partner**
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