

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to what action you should take you are recommended to seek your own financial advice immediately from an independent financial adviser who specialises in advising on shares or other securities and who is authorised under the Financial Services and Markets Act 2000 (as amended) (“FSMA”) or, if you are not resident in the UK, from another appropriately authorised independent financial adviser in your own jurisdiction.

This document comprises a prospectus (the “**Prospectus**”) for the purpose of Article 3 of the UK Prospectus Regulation relating to Fair Oaks Income Limited (the “**Company**”) in connection with a placing programme of 2021 Shares and/or C Shares (the “**Placing Programme**”), prepared in accordance with the UK prospectus regulation rules of the Financial Conduct Authority (the “**FCA**”) made pursuant to section 73A of FSMA and approved by the FCA as competent authority under the UK Prospectus Regulation.

This Prospectus has been approved by the FCA (address: 12 Endeavour Square, London, E20 1JN, United Kingdom; telephone number: +44 (0) 20 7066 1000), as competent authority under the UK Prospectus Regulation. The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the UK Prospectus Regulation. Such approval should not be considered as an endorsement of the Company or as an endorsement of the quality of the securities that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the securities.

The distribution of this document 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 document 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 document and any accompanying documents must not be distributed, forwarded to or transmitted in or into any Restricted Jurisdiction.

Application will be made to the London Stock Exchange plc (the “**London Stock Exchange**”) for all of the Shares to be issued pursuant to any Placing under the Placing Programme to be admitted to trading on the Specialist Fund Segment of the Main Market of the London Stock Exchange (the “**SFS**” or “**Specialist Fund Segment**”). It is expected that any Admission pursuant to Placings under the Placing Programme will become effective and dealings will commence between 23 April 2021 and 25 March 2022.

**Prospective investors should read the entire document and, in particular, the section headed “Risk Factors” beginning on page 13 when considering an investment in the Company.**

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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)*

**Placing Programme of 2021 Shares and/or C Shares up to an aggregate issue value of US\$350 million**

**and**

**Admission of 2021 Shares and/or C Shares to trading on the Specialist Fund Segment of the London Stock Exchange’s Main Market**

**Numis Securities Limited and Liberum Capital Limited**

*Joint Bookrunners, Joint Brokers and Joint Financial Advisers*

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The Company and each of the Directors, whose names appear on page 38 of this Prospectus, accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company and the Directors, the information contained in this Prospectus is in accordance with the facts and this Prospectus makes no omission likely to affect its import.

Each of the GP Directors, whose names appear on page 39 and 40 of this Prospectus, accept responsibility for the information contained in this Prospectus relating to Master Fund II and to Master Fund III. To the best of the knowledge of the Company and the Directors, the information

contained in this Prospectus is in accordance with the facts and this Prospectus makes no omission likely to affect its import.

The General Partner (whose name and registered address appear on page 39 and 40), on behalf of Master Fund II, accepts responsibility for the information in Part 2 and 7 and the “Risk Factors” section (excluding risk factors relating to the Company or to the Placing Programme) of this document and declares that, having taken all reasonable care to ensure that such is the case, the information in Part 2 and 7 and the “Risk Factors” section (excluding risk factors relating to the Company or to the Placing Programme) of this document, to the best of its knowledge, is in accordance with the facts and contains no omission likely to affect its import.

The General Partner (whose name and registered address appear on page 39 and 40), on behalf of Master Fund III, accepts responsibility for the information in Part 3 and 7 and the “Risk Factors” section (excluding risk factors relating to the Company or to the Placing Programme) of this document and declares that, having taken all reasonable care to ensure that such is the case, the information in Part 3 and 7 and the “Risk Factors” section (excluding risk factors relating to the Company or to the Placing Programme) of this document, to the best of its knowledge, is in accordance with the facts and contains no omission likely to affect its import.

Specialist Fund Segment securities are not admitted to the Official List of the Financial Conduct Authority. Therefore the Company has not been required to satisfy the eligibility criteria for admission to listing on the Official List and is not required to comply with the Listing Rules. The London Stock Exchange has not examined or approved the contents of this document.

The Specialist Fund Segment is intended for institutional, professional, professionally advised and knowledgeable investors who understand, or who have been advised of, the potential risk from investing in companies admitted to the Specialist Fund Segment. The Shares are intended to be suitable only for institutional, professional and highly 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 Master Fund II and Master Fund III, 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.

Numis Securities Limited (“**Numis**”), which is authorised and regulated in the UK by the FCA, is acting exclusively for the Company and no one else in connection with the Placing Programme and each Admission and will not regard any other person (whether or not a recipient of this document) as its client in relation to the Placing Programme and each Admission 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 Placing Programme and each Admission or any other matter referred to in this document. This does not exclude or limit any responsibilities which Numis may have under FSMA or the regulatory regime established thereunder.

Liberum Capital Limited (“**Liberum**”), which is authorised and regulated in the UK by the FCA, is acting exclusively for the Company and no one else in connection with the Placing Programme and each Admission and will not regard any other person (whether or not a recipient of this document) as its client in relation to the Placing Programme and each Admission 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 Placing Programme and each Admission or any other matter referred to in this document. This does not exclude or limit any responsibilities which Liberum may have under FSMA or the regulatory regime established thereunder.

Other than the responsibilities or liabilities, if any, which may be imposed on Numis or on Liberum by FSMA or any regulatory regime established thereunder, neither Numis nor Liberum accepts any responsibility whatsoever or make any representation or warranty, express or implied, in respect of the contents of this document, 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, document 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) and Liberum (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 document or any such statement.

In considering whether to apply for Shares, you should rely only on information contained in this document. Recipients of this document acknowledge that: (i) they have not relied on the Company, Numis, Liberum or any person affiliated with either of them in connection with any investigation of the accuracy of any information contained in this document or their investment decision; and (ii) they have relied only on the information contained in this document and that no person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied on as having been authorised by the Company, Numis or Liberum. Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G of the FSMA and paragraph 3.4 of the Prospectus Regulation Rules, neither the delivery of this document nor any subscription of Shares made pursuant to this document shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since, or that the information contained in this document is correct at any time after, the date of this document. No statement in this document is intended as a profit forecast.

Capitalised terms have the meanings ascribed to them in the Definitions section (Part 8) of this document.

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 either (i) outside the United States in offshore transactions within the meaning of and in accordance with the safe harbour from the registration requirements in Regulation S under the Securities Act or (ii) in the United States in private placement transactions not involving any public offering in reliance on the exemption from the registration requirements of Section 5 of the Securities Act provided by Section 4(2) under the Securities Act or another applicable exemption therefrom.

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, Master Fund II and Master Fund III 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 Scheme Rules 2018 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, Master Fund II or Master Fund III or for the correctness of any statements made or opinions expressed with regard to it.

The Directors and the GP Directors (as appropriate) 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 (as appropriate).

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 website (or any other website) nor the content of any website accessible from hyperlinks on any of the Company's website (or any other website) is incorporated into, or forms part of this document. Please note also that neither Master Fund II nor Master Fund III has a website.

This document is dated 26 March 2021.

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# SUMMARY

## 1. Introduction and warnings

### **a. Name and ISIN of securities**

Ordinary shares of no par value each in the capital of Fair Oaks Income Limited ("**Company**") to be designated as "2021 shares" ("**2021 Shares**"): TIDM: FAIR. ISIN: GG00BNNLWT35.

The relevant codes (TIDM and ISIN) for any tranche of C shares of no par value each in the capital of the Company ("**C Shares**") that may be issued under the Placing Programme is not known at the date of this Prospectus but will be announced through a Regulatory Information Service at the appropriate time.

### **b. Identity and contact details of the issuer**

The Company, Fair Oaks Income Limited, is a non-cellular company limited by shares incorporated in Guernsey under The Companies (Guernsey) Law, 2008, as amended ("**Companies Law**") with registration number 58123. Registered office: Sarnia House, Le Truchot, St Peter Port, Guernsey GY1 1GR. Tel: 01481 737600. Legal Entity Identifier ("**LEI**") : 2138008KETEC1WM5YP90

FOIF II LP (formerly FOMC II LP) ("**Master Fund II**") is a Guernsey limited partnership established and registered in Guernsey as a limited partnership without separate legal personality pursuant to The Limited Partnerships (Guernsey) Law, 1995, as amended ("**Partnership Law**") with registration number 2782. Registered office: Sarnia House, Le Truchot, St Peter Port, Guernsey GY1 1GR. Tel: 01481 737600. LEI: 213800ANN83I38BISH43.

FOMC III LP ("**Master Fund III**") is a Guernsey limited partnership established and registered in Guernsey as a limited partnership without separate legal personality pursuant to the Partnership Law with registration number 3847. Registered office: Sarnia House, Le Truchot, St Peter Port, Guernsey GY1 1GR. Tel: 01481 737600. LEI: 2138003VDID1SMURO112

### **c. Identity and contact details of the competent authority**

Name: Financial Conduct Authority ("**FCA**"). Address: 12 Endeavour Square, London, E20 1JN, United Kingdom. Tel: +44 (0) 20 7066 1000

### **d. Date of approval of the prospectus**

26 March 2021

### **e. Warnings**

This summary should be read as an introduction to this Prospectus. Any decision to invest in the securities should be based on a consideration of the Prospectus as a whole by the investor. The investor could lose all or part of the invested capital. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under national law, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only where the summary is misleading, inaccurate or inconsistent, when read together with the other parts of the Prospectus, or where it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the securities.

## 2. Key information on the issuer

### **a. Who is the issuer of the securities?**

#### i. Domicile and legal form, LEI, applicable legislation and country of incorporation

The Company is a non-cellular company limited by shares incorporated in Guernsey on 7 March 2014 (registration number 58123). The principal legislation under which the Company operates (and under which the C Shares, 2021 Shares and 2017 Shares have been created) is the Companies Law together with ordinances and regulations made under the Companies Law. The Company is regulated by the Commission by virtue of the Company being registered with the Guernsey Financial Services Commission ("**Commission**") as a Registered Closed-ended Collective Investment Scheme and is required to comply with the Registered Collective Investment Scheme Rules 2018 ("**RCIS Rules**") issued by the Commission. The Company's LEI is 2138008KETEC1WM5YP90.

Master Fund II is a limited partnership established and registered without separate legal personality in Guernsey on 24 February 2017 (registration number 2782). The principal legislation under which Master Fund II operates is the Partnership Law. Master Fund II is regulated by the Commission as a Registered Closed-ended Collective Investment Scheme and is required to comply with the RCIS Rules issued by the Commission. Master Fund II's LEI is 213800ANN83I38BISH43.

Master Fund III is a limited partnership established and registered without separate legal personality in Guernsey on 10 March 2021 (registration number 3847). The principal legislation under which Master Fund III operates is the Partnership Law. Master Fund III is regulated by the Commission as a Registered Closed-ended Collective Investment Scheme and is required to comply with the RCIS Rules issued by the Commission. Master Fund III's LEI is 2138003VDID1SMURO112.

#### ii. Principal activities

The principal activity of the Company is to invest in accordance with the Company's investment policy with a view to achieving its investment objective.

The principal activity of Master Fund II is to invest in accordance with its investment policy with a view to achieving its investment objective.

The principal activity of Master Fund III is to invest in accordance with its investment policy with a view to achieving its investment objective.

#### iii. Investment objective

The Company's investment objective is to generate attractive, risk-adjusted returns, principally through income distributions. Master Fund II's investment objective is to generate attractive, risk-adjusted returns, principally through income distributions. Master Fund III's investment objective is to generate attractive, risk-adjusted returns, principally through income distributions.



#### iv. Major shareholders

So far as is known to the Company, and which is notifiable under the Disclosure Guidance and Transparency Rules, as at 24 March 2021 (the “**Latest Practicable Date**”), the following persons held, directly or indirectly, 5 per cent. or more of the issued share capital or the Company’s voting rights:

<i>Name</i>	<i>Number of 2017 Shares</i>	<i>Percentage of voting rights (%)</i>
VIDACOS NOMINEES LIMITED	27,184,806	5.80%
NORTRUST NOMINEES LIMITED	28,799,906	6.15%
BBHISL NOMINEES LIMITED	35,975,565	7.68%
VIDACOS NOMINEES LIMITED	44,788,005	9.56%
NORTRUST NOMINEES LIMITED	54,159,716	11.56%

As at the Latest Practicable Date, the Company and the Directors are not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company. All Shareholders have the same voting rights in respect of shares of the same class in the share capital of the Company.

So far as is known to Master Fund II as at the Latest Practicable Date, no person other than the Company, Miguel Ramos Fuentenebro, Roger Coyle and one further limited partner (unconnected with the Company or with Fair Oaks Capital) hold, directly or indirectly, an interest in Master Fund II’s capital or voting rights that is notifiable under Guernsey law. As at the Latest Practicable Date, Master Fund II and the General Partner are not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over Master Fund II.

So far as is known to Master Fund III as at the Latest Practicable Date, no person other than the Company holds, directly or indirectly, an interest in Master Fund III’s capital or voting rights that is notifiable under Guernsey law. As at the Latest Practicable Date, Master Fund III and the General Partner are not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over Master Fund III.

#### v. Directors

The directors of the Company are Professor Claudio Albanese (Chairman), Jonathan Bridel and Nigel Ward. The general partner of Master Fund II and Master Fund III is Fair Oaks Income Fund (GP) Limited (“**General Partner**”). The directors of the General Partner (“**GP Directors**”) are Miguel Arraya, Chris Waldron and Chris Hickling.

#### vi. Statutory auditors

For the Company, Master Fund II and Master Fund III: KPMG Channel Islands Limited, Gategny Court, Gategny Esplanade, St Peter Port, Guernsey GY1 1WR. Tel: 01481 72 10 00

#### **b. What is the key financial information regarding the issuer?**

##### The Company:

**Table 1: Additional information relevant to closed-ended funds**

<i>Share Class</i>	<i>Total Net Asset Value as at 26 February 2021, being the date of the latest published net asset value</i>	<i>No. of shares as at the Latest Practicable Date (24 March 2021)</i>	<i>Net Asset Value per share as at 26 February 2021, being the date of the latest published net asset value</i>	<i>Historical performance of the Company</i>
2017 Shares	US\$306 million	468,378,360 (which includes the 650,000 shares held in treasury)	US\$0.6549 (including current financial year revenue items)	Since the first admission of the Company’s ordinary shares to trading on the Specialist Fund Segment of the Main Market of the London Stock Exchange (“ <b>SFS</b> ”), which became effective on 12 June 2014 (“ <b>Original Admission</b> ”) (which were reclassified as “2017 Shares” on March 2017), the Company has delivered Net Asset Value and share price total returns of 47 per cent. and 38 per cent., respectively and the 2017 Shares have traded at an average premium to Net Asset Value per 2017 Share of 1 per cent.

**Table 2: Statement of comprehensive income for closed-ended funds**

	Audited annual report and accounts for the year ended 31 December 2019 (US\$,000)	Audited annual report and accounts for the year ended 31 December 2018 (US\$,000)	Audited annual report and accounts for the year ended 31 December 2017 (US\$,000)	Unaudited interim report for the six months ended 30 June 2020 (US\$,000)	Comparative unaudited interim from the same period in the prior year (i.e. for the six months ended 30 June 2019) (US\$,000)
Net (loss)/gain on investments at fair value through profit and loss	(1,659)	4,909	50,661	(108,843)	9,234
Other income and FX gains	231	375	276	(50)	178
Administrative and other expenses	(841)	(1,055)	(2,519)	(503)	(381)
<b>(Loss)/profit before tax</b>	<b>(2,269)</b>	<b>4,230</b>	<b>48,419</b>	<b>(109,395)</b>	<b>9,031</b>
Taxation	—	—	—	—	—
<b>(Loss)/profit after tax</b>	<b>(2,269)</b>	<b>4,230</b>	<b>48,419</b>	<b>(109,395)</b>	<b>9,031</b>
<b>(Loss)/earnings per 2017 Share</b>	<b>US\$(0.0046)</b>	<b>US\$0.0052</b>	<b>US\$0.1330</b>	<b>US\$(0.2388)</b>	<b>US\$0.0204</b>

**Table 3: Balance sheet for closed-ended funds**

	Audited annual report and accounts for the year ended 31 December 2019 (US\$,000)	Audited annual report and accounts for the year ended 31 December 2018 (US\$,000)	Audited annual report and accounts for the year ended 31 December 2017 (US\$,000)	Unaudited interim report for the six months ended 30 June 2020 (US\$,000)
<b>Non-current assets</b>				
Investments at fair value through profit or loss	336,722	385,162	382,307	228,444
<b>Current assets</b>				
Cash and cash equivalents	5,341	16,553	54,580	1,446
Other receivables	1,186	13,953	29,107	58
<b>Total assets</b>	<b>343,249</b>	<b>415,668</b>	<b>465,994</b>	<b>229,949</b>
<b>Current liabilities</b>				
Other payables	(90)	(49)	(44)	(115)
<b>Total net assets</b>	<b>343,159</b>	<b>415,619</b>	<b>465,950</b>	<b>229,834</b>
Net asset value per 2017 Share	US\$0.7580	US\$0.8742	US\$1.0016	US\$0.4914

Master Fund II:

**Table 1: Additional information relevant to closed-ended funds**

Total Partnership Interests (net assets) as at 26 February

2021, being the date of the latest published net asset value

Historical performance of Master Fund II

Since April 2017 (being the date on which the Company's Commitment to Master Fund II became unconditional), Master Fund II has delivered Company's returns of 6 per cent. on the total commitments in Master Fund II.

US\$416,001,639

**Table 2: Statement of comprehensive income for closed-ended funds**

	Audited annual report and accounts for the year ended 31 December 2019 (US\$,000)	Audited annual report and accounts for the year ended 31 December 2018 (US\$,000)	Audited annual report and accounts for the period from incorporation (24 February 2017) to 31 December 2017 (US\$,000)
Net (loss)/gain on investments at fair value through profit and loss	(27,535)	(24,726)	32,177
Investment income	27,346	28,935	1,944
Other income and FX gains	1,720	781	3
Administrative and other expenses	(3,083)	(2,116)	(1,129)
<b>(Loss)/profit before tax</b>	<b>(1,553)</b>	<b>2,874</b>	<b>32,996</b>
Taxation	—	—	—
<b>(Loss)/profit after tax</b>	<b>(1,553)</b>	<b>2,874</b>	<b>32,996</b>



**Table 3: Balance sheet for closed-ended funds**

	Audited annual report and accounts for the year ended 31 December 2019 (US\$,000)	Audited annual report and accounts for the year ended 31 December 2018 (US\$,000)	Audited annual report and accounts for the period from incorporation (24 February 2017) to 31 December 2017 (US\$,000)
<b>Non-current assets</b>			
Investments at fair value through profit or loss	285,421	370,133	339,639
<b>Current assets</b>			
Cash and cash equivalents	16,107	4,017	6,745
Other receivables	124	6,256	23,798
<b>Total assets</b>	<b>301,653</b>	<b>380,405</b>	<b>370,182</b>
<b>Current liabilities</b>			
Other payables	(3,054)	(13,400)	(25,422)
<b>Total net assets / total partnership interests</b>	<b>298,599</b>	<b>367,006</b>	<b>344,760</b>

Master Fund II has not published any new financial information since the audited annual report and financial statements for the financial year ended 31 December 2019. Master Fund II does not prepare interim financial information as there is no requirement under the MFII Partnership Agreement or under the Partnership Law to prepare interim financial information in respect of Master Fund II. **Therefore, interim financial information relating to Master Fund II covering the six months to 30 June 2020 is not available (and which would otherwise be required to be included in the Prospectus) and therefore a reduced level of disclosure has been provided in relation to Master Fund II.**

Master Fund III:

Master Fund III is newly-established and has no historical financial information.

**c. What are the key risks that are specific to the issuer?**

The Company:

- The Company's performance depends on the performance of Master Fund II and Master Fund III. The Company is therefore subject to all of the material risks affecting Master Fund II's and Master Fund III's operations.
- The Company has no employees and is reliant on the performance of third party service providers.
- The Company has very limited ability to redeem or transfer its investments in or withdraw from Master Fund II or from Master Fund III.
- The medium and long-term impacts of Covid-19 are hard to predict, rapidly-evolving and may be materially more severe and/or more permanent than anticipated.
- Changes in law or regulation may adversely affect the Company's ability to carry on its business. Possible changes in the tax position of the Company, Master Fund II and Master Fund III, and any changes in, or in the interpretation of, tax legislation, could adversely affect the net amount of any distributions payable to Shareholders or the tax treatment of distributions received by Shareholders.

Master Fund II and Master Fund III:

- There can be no guarantee that Master Fund II or Master Fund III will achieve their respective investment objectives or that investors will get back the full value of their investment.
- Failure by service providers to Master Fund II or Master Fund III to perform their obligations could materially disrupt or damage the business of Master Fund II or Master Fund III with adverse effects on their business or performance.
- The performance of Master Fund II or Master Fund III may be adversely affected should one or more key individuals cease to be directors, members or employees of Fair Oaks Capital.
- Investments which are non-investment grade loans are subject to higher credit risk and may be less liquid than investment grade loans or bonds. Losses from defaults within the loan portfolios in which the Master Funds invest/may invest, and from the sale of loans from those portfolios at distressed levels, will impact the returns to the Master Fund(s).
- The rates at which loans are prepaid and proceeds reinvested may have an impact on returns.
- Investments in collateralised loan obligation ("CLO") income notes and mezzanine notes will be subordinated to the more senior debt of the CLOs. Payments of interest and principal to holders of these notes are made from the cash flows received on the underlying loans held by the CLO only after all senior ranking note holders and expenses of the CLO have been paid. As such, Master Fund II's and Master Fund III's investments are/will be particularly susceptible to losses resulting from defaults within the CLOs' loan portfolios. Because of their subordinated position, credit losses and changes in market conditions or investor perceptions may have a greater impact on the market value of CLO income notes and mezzanine notes than on the market value of the underlying loans.
- Investments in CLOs will depend in part on the performance and operational effectiveness of the managers of the CLOs. The actions and operational effectiveness of the managers of the CLOs in which the Master Funds invest may have a negative impact on the income from and value ultimately attained for the Master Funds' investments.

### **3. Key information on the securities**

#### **a. What are the main features of the securities?**

##### **i. Type, class and ISIN of the securities being admitted to trading on a regulated market**

The securities that may be issued under the placing programme (“**Placing Programme**”) are 2021 Shares and/or C Shares. The ISIN of the 2021 Shares is GG00BNNLWT35. The ISIN of any tranche of C Shares that may be issued under the Placing Programme is not known at the date of this Prospectus but will be announced through a Regulatory Information Service at the appropriate time.

##### **ii. Currency, denomination, par value, number of securities issued and term of the securities**

C Shares and 2021 Shares are denominated in US dollars (US\$) and have no par value each. The placing price of the C Shares under the Placing Programme is US\$1 per C Share. The placing price of the 2021 Shares that may be issued under the Placing Programme is not known at the date of this Prospectus, but will be not less than the net asset value per 2021 Share at the time of issue and a premium to cover the estimated commissions and expenses of such issue. The Company may issue C Shares and/or 2021 Shares on a non-pre-emptive basis pursuant to the Placing Programme up to an aggregate issue value of US\$350 million.

##### **iii. Rights attaching to the securities**

###### **In respect of the 2021 Shares**

**Dividends:** Holders of the 2021 Shares are entitled to receive, and participate in, any dividends or other distributions relating to the 2021 Shares’ assets which are resolved to be distributed in respect of any accounting period or other period, provided that no calls or other sums due by them to the Company are outstanding. The assets attributable to the 2021 Shares will be accounted for and managed as a separate pool of assets of the Company, distinct from the assets attributable to the Realisation Shares and distinct from the assets attributable to the classes or tranches of C Shares. Any dividends payable to the holders of the 2021 Shares will represent income received by the Company from investments held by the Company and which are attributable to the 2021 Shares’ interest in Master Fund III.

**Voting:** Subject to any rights or restrictions attached to the 2021 Shares, at a general meeting of the Company, on a show of hands, every holder of voting shares present in person or by proxy and entitled to vote shall have one vote, and on a poll every holder of voting 2021 Shares present in person or by proxy shall have one vote for each share held by him.

###### **In respect of the C Shares**

**Dividends:** Holders of C Shares shall be entitled to receive, and participate in, any dividends declared only insofar as such dividend is attributed, at the sole discretion of the Directors, to the C Share Surplus of that class or tranche. (“**C Share Surplus**” means in relation to any class or tranche of C Shares, the net assets of the Company attributable to that class or tranche of C Shares (as determined by the Directors) at the date of winding up or other distribution or return of capital.) The holders of New 2021 Shares, which shall arise after Conversion of any class or tranche of C Shares in issue, shall rank in full for all dividends and other distributions declared, made or paid after Conversion and otherwise *pari passu* with the 2021 Shares in issue at the time of Conversion. The assets representing each class or tranche of C Shares will be accounted for and managed as a separate pool of assets of the Company, distinct from the assets attributable to the 2021 Shares until their Conversion and distinct from the assets attributable to the Realisation Shares. Each tranche of C Shares will form a separate underlying pool of assets and liabilities from other tranches of C Shares. Any dividends payable to the holders of each class or tranche of C Shares will represent income received by the Company from investments held by the Company and which are attributable to the relevant class or tranche of C Shares’ interest in Master Fund III.

**Voting:** Each class or tranche of C Shares shall carry the right to receive notice of, and to attend or vote at, any general meeting of the Company in the same manner as the Realisation Shares and the 2021 Shares (notwithstanding any difference in the respective Net Asset Values of the C Shares, Realisation Shares and 2021 Shares).

**Winding Up:** On a winding up or return of capital prior to Conversion, the capital and assets of the Company shall be applied as follows:

- (i) the Realisation Share Surplus shall be divided amongst the holders of the Realisation Shares according to the rights attaching thereto as if the Realisation Share Surplus comprised the assets of the Company available for distribution (“**Realisation Share Surplus**” means in relation to the Realisation Shares, the net assets of the Company attributable to the Realisation Shares (as determined by the Directors) at the date of winding up or other distribution or return of capital);
- (ii) the 2021 Share Surplus shall be divided amongst the holders of 2021 Shares according to the rights attaching thereto as if the 2021 Share Surplus comprised the assets of the Company available for distribution (“**2021 Share Surplus**” means in relation to the 2021 Shares, the net assets of the Company attributable to the 2021 Shares (as determined by the Directors) at the date of winding up or other return of capital); and
- (ii) the C Share Surplus attributable to each class or tranche of C Shares shall be divided amongst the holders of such class or tranche *pro rata* according to their holdings of C Shares of that class or tranche.

##### **iv. Relative seniority of the securities in the event of insolvency**

On a winding-up or a return of capital by the Company, the Realisation Share Surplus shall be divided amongst the holders of Realisation Shares, the 2021 Share Surplus shall be divided amongst the holders of 2021 Shares and the C Share Surplus shall be divided amongst the holders of the relevant class or tranche of C Shares. The Realisation Share Surplus, 2021 Share Surplus and C Share Surplus shall be separately identified.

##### **v. Restrictions on free transferability of the securities**

There are no restrictions on the free transferability of the Company’s shares, subject to compliance with applicable securities laws and the restrictions on transfer contained in the Company’s articles of incorporation (“**Articles**”). Under the Articles, the Directors may refuse to register the transfer of a Share in certificated form which is not fully paid, or a Share in uncertificated form where it is entitled to refuse to register the transfer under the relevant regulations, provided that such refusal does not prevent dealings in the shares from taking place on an open and proper basis.

In addition, the Board may refuse to register a transfer of shares if it is in respect of more than one class of shares; it is in favour of more than four joint transferees; in relation to a share in certificated form, it is not accompanied by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove title of the transferor and the due execution by him of the transfer or, if the transfer is executed by some other person on his behalf, the authority of that person to do so. There are also certain limited circumstances in which the Board may, under the Articles and subject to certain conditions, compulsorily require the transfer of Shares. C Shares shall be transferable in the same manner as the 2021 Shares and Realisation Shares.

#### vi. Dividend policy

**Realisation Shares:** The Company intends to pay dividends to holders of Realisation Shares representing an amount in aggregate at least equal to the gross income from investments received by the Company in the relevant financial period attributable to the Realisation Shares' interest in Master Fund II and Qualifying Short Term Investments, less expenses of the Company.

**2021 Shares:** The Board intends to pay quarterly dividends to holders of 2021 Shares representing an amount in aggregate at least equal to the gross income received by the Company from investments in the relevant financial year that are attributable to the 2021 Shares' interest in Master Fund III and qualifying short term investments, less a proportionate share of the expenses of the Company.

**C Shares:** The Board intends to pay a single dividend, immediately prior to the conversion to 2021 Shares, to holders of the relevant tranche of C Shares representing an amount in aggregate at least equal to the gross income received by the Company from investments that are attributable to that relevant tranche of C Shares' interest in Master Fund III and qualifying short term investments, less a proportionate share of the expenses of the Company.

#### **b. Where will the securities be traded?**

Application will be made to the London Stock Exchange for all of the C Shares and/or 2021 Shares to be issued pursuant to each placing ("Placing") under the Placing Programme to be admitted to trading on the SFS. No application will be made for the C Shares and/or 2021 Shares to be listed or to be dealt in on any other stock exchange or investment exchange.

#### **c. What are the key risks that are specific to the securities?**

- The Company's shares may not trade in line with their net asset value.
- It may be difficult for Shareholders to realise their investment and there may not be a liquid market in the Shares.
- The Company may issue additional securities that dilute the voting rights of existing holders of Shares.

### **4. Key information on the admission to trading on a regulated market**

#### **a. Under which conditions and timetable can I invest in this security?**

##### i. General terms and conditions

The Company may issue Shares (being C Shares and/or 2021 Shares) on a non-pre-emptive basis pursuant to the Placing Programme up to an aggregate issue value of US\$350 million.

Any Placing of Shares pursuant to the Placing Programme (which is not being underwritten) is conditional on:

- (i) the resolutions proposed at the EGM being passed and the admission of the 2021 Shares as re-designated from ordinary shares currently designated as "2017 Shares" pursuant to the Reorganisation Proposal to trading on the SFS having occurred;
- (ii) Shareholder authority for the Placing of Shares and disapplication of pre-emption rights in respect of the relevant share issue being in place;
- (iii) the Placing Price in respect of the 2021 Shares not being less than the aggregate of the Net Asset Value per 2021 Share and a premium to cover the commissions and expenses of the issue of new 2021 Shares under the Placing Programme and in respect of the C Shares being US\$1 per C Share;
- (iv) the Company having a placing agreement or equivalent arrangement in place at the time of such issue;
- (v) Admission of those Shares;
- (vi) Numis and/or Liberum (as applicable) confirming to the placees their allocation of Shares; and
- (vii) a placee agreeing to become a member of the Company and agreeing to subscribe for those Shares allocated to it by Numis or Liberum (as applicable) at the applicable placing price agreed by the Company, Numis and Liberum.

In circumstances in which these conditions are not fully met, the relevant Placing of Shares pursuant to the Placing Programme will not take place.

##### ii. Expected timetable

Publication of this Prospectus

26 March 2021

#### **Placings under the Placing Programme**

Placings under the Placing Programme

between 23 April 2021 and 25 March 2022

Announcement of the results of each Placing

as soon as practicable following the closing of a Placing

Admission and crediting of CREST accounts in respect of each Placing

as soon as practicable following the issue of Shares pursuant to a Placing

Definitive share certificates in respect of the Shares issued pursuant to each Placing despatched by post

approximately one week following the Admission of any Shares pursuant to a Placing

##### iii. Details of admission to trading on a regulated market

Application will be made to the London Stock Exchange for all the C Shares and/or 2021 Shares to be issued pursuant to each Placing under the Placing Programme to be admitted to trading on the SFS. No application will be made for the C Shares and/or 2021 Shares to be listed or to be dealt in on any other stock exchange or investment exchange.

iv. Plan for distribution

The Company may issue Shares (being C Shares and/or 2021 Shares) on a non-pre-emptive basis pursuant to the Placing Programme up to an aggregate issue value of US\$350 million. The number of Shares available under the Placing Programme is intended to be flexible and should not be taken as an indication of the number of Shares that will be issued. Any issues of Shares will be notified by the Company through a Regulatory Information Service prior to each Admission.

v. Amount and percentage of immediate dilution resulting from the issue

Dilution of voting control: If 350 million Shares were issued pursuant to the Placing Programme, there would be a dilution of approximately 45 per cent. in existing Shareholders' voting control of the Company. Further, on a conversion of any tranche of C Shares, any dilution (in terms of voting control of the Company) resulting from the issue of such tranche of C Shares may increase or decrease depending on the conversion ratio used for such conversion.

Dilution to net asset value: As no 2021 Shares will be issued under the Placing Programme at a price which is less than the aggregate of the Net Asset Value per 2021 Share and a premium to cover the commissions and expenses of the issue of new 2021 Shares under the Placing Programme, there will be no dilution in the Net Asset Value per 2021 Share as a result of the issue of any 2021 Shares under the Placing Programme.

The basis on which a tranche of C Shares would convert into new 2021 Shares ("**New 2021 Shares**") is such that the number of New 2021 Shares to which holders of C Shares of that tranche would become entitled will reflect the relative net asset values per share of the assets attributable to that relevant tranche of C Shares and the 2021 Shares. As a result, the Net Asset Value per 2021 Share can be expected to be unchanged by the issue and conversion of any C Shares.

The Net Asset Value of the existing 2021 Shares (and C Shares of any existing tranche(s), if any are in existence at the relevant time) would not be diluted by the expenses of an issue of (a further tranche of) C Shares, which would be borne by holders of such tranche of C Shares only.

vi. Estimate of the total expenses of the issue

The Company is bearing fixed costs relating to the preparation and publication of this Prospectus and also certain initial costs and expenses of Master Fund III (these include the Commission application fee and costs relating to the registration of Master Fund III and Fair Oaks Founder VI LP ("**MFIII Founder Partner**") and Master Fund III's administrative launch costs), which in aggregate are expected to be approximately US\$0.8 million.

The net proceeds of the Placing Programme are dependent on the number of Shares issued and the relevant placing price(s). The costs and expenses of each issue of Shares pursuant to a Placing under the Placing Programme will depend on subscriptions received. In the event Shares are issued pursuant to a Placing, the costs and expenses of that Placing are not expected to exceed 2.0 per cent. of the proceeds of the Placing. The costs of any issue of 2021 Shares are expected to be covered by issuing such 2021 Shares at a premium to the last published Net Asset Value per 2021 Share at the time of issue. The costs and expenses of any issue of C Shares under the Placing Programme will be paid out of the gross proceeds of such issue and will be borne by holders of such (tranche of) C Shares only.

vii. Estimated expenses charged to the investor

No expenses are directly charged to investors. The Company is bearing fixed costs relating to the preparation and publication of this Prospectus and also certain initial costs and expenses of Master Fund III (these include the Commission application fee and costs relating to the registration of Master Fund III and the MFIII Founder Partner and Master Fund III's administrative launch costs), which in aggregate are expected to be approximately US\$0.8 million.

It is intended that the costs and expenses of each Placing of 2021 Shares under the Placing Programme will be covered by issuing 2021 Shares at a premium to the last published Net Asset Value per 2021 Share at the time of issue, and that the costs of any issue of a tranche of C Shares will be allocated solely to the relevant tranche of C Shares, rather than being charged directly to any investor.

**b. Why is this prospectus being produced?**

i. Reasons for the Placing Programme

The Placing Programme is being put in place in order to enable the Company to raise further funds swiftly should there be further investor demand for the purpose of achieving its investment objective.

ii. The use and estimated net amount of the proceeds

The Directors intend to invest substantially all the net proceeds of any Placing under the Placing Programme in Master Fund III. The net proceeds of the Placing Programme are dependent on the number of Shares issued and the relevant placing price(s). If the Placing Programme is fully utilised, the gross proceeds of the Placing Programme would be US\$350 million. The Net Proceeds are dependent, *inter alia*, on the Directors determining to proceed with a Placing under the Placing Programme, the level of subscriptions received and the price at which such 2021 Shares and/or C Shares are issued.

iii. Underwriting

No Placing under the Placing Programme is being underwritten.

iv. Material conflicts of interest

Certain principals of the Investment Adviser (such as Miguel Ramos Fuentenebro and Roger Coyle) are shareholders of the General Partner and limited partners of Master Fund II, Fair Oaks Founder II LP ("**MFII Founder Partner**") and the MFIII Founder Partner.

## RISK FACTORS

Any investment in the Company should not be regarded as short-term in nature and involves a degree of risk. Accordingly, investors should consider carefully all of the information set out in this Prospectus and the risks attaching to an investment in the Company, including, in particular, the risks described below.

An investment in C Shares and/or 2021 Shares pursuant to the Placing Programme is suitable for professional and professionally advised and knowledgeable investors who understand, or who have been advised of, the potential risk from investing in companies admitted to the Specialist Fund Segment and are seeking attractive risk-adjusted returns, principally through income distributions, by investing in accordance with Master Fund II's and Master Fund III's investment policy, and who are capable themselves of evaluating the merits and risks of an investment in the Company whose investment policy mirrors that of Master Fund II and Master Fund III, and who have sufficient resources both to invest in potentially illiquid securities and to be able to bear any losses (which may equal the whole amount invested) that may result from the investment.

The Directors believe that the risks described below are the material risks relating to the Shares at the date of this Prospectus. Additional risks and uncertainties not currently known to the Directors, or that the Directors deem immaterial at the date of this Prospectus, may also have an adverse effect on the performance of the Company and the value of the Shares. Investors should review this Prospectus carefully and in its entirety and consult with their professional advisers before making a decision to participate in the Placing Programme.

### **1A. Risks relating to the Company**

#### ***The performance of the Company depends upon the performance of Master Fund II and of Master Fund III***

The Company's performance and returns to Shareholders depends on the performance of Master Fund II and of Master Fund III. The Company is therefore subject to all of the material risks affecting Master Fund II's and Master Fund III's operations.

The Company is a feeder fund which currently invests substantially in Master Fund II. After the Reorganisation Proposal becomes effective, after the Placing Programme and going forward, the Company will also invest substantially in Master Fund III. In addition a proportion of Master Fund III's assets will comprise of limited partnership interests in Master Fund II. As a feeder fund, except to a very limited extent in certain limited circumstances, the Company does not have discretion as to the application of the proceeds of its investment in Master Fund II or Master Fund III. Instead, the Company relies on the skills and capabilities of the General Partner in selecting, evaluating, structuring, negotiating, monitoring and exiting investments and otherwise in managing the capital, assets and business of Master Fund II and Master Fund III.

Depending on the number of Shareholders whose shares are to be re-designated as 2021 Shares further to the Reorganisation Proposal, it is possible that, upon the Contribution Agreement becoming unconditional, Master Fund III could end up holding a majority of the limited partnership interests in Master Fund II. Therefore, the performance of Master Fund II would also affect the performance of Master Fund III.

In managing the investments of Master Fund II and Master Fund III, discretion as to all investment matters will remain with the General Partner. The General Partner has complete discretion when making investment related decisions for Master Fund II and Master Fund III, subject always to the investment policy and investment restrictions and, except in certain very limited circumstances, investment decisions are not subject to the prior approval of the Company. Accordingly, the failure of the General Partner to implement and realise the Company's investment policy as it applies to Master Fund II or Master Fund III or to otherwise produce adequate returns or the failure of the General Partner to comply with the investment policy and restrictions of Master Fund II or Master Fund III will have a material adverse effect on the performance of the Shares and returns to Shareholders.



***The Company has no employees and is reliant on the performance of third party service providers***

The Company has no employees and the Directors have all been appointed on a non-executive basis. Whilst the Company has taken all reasonable steps to establish and maintain adequate procedures, systems and controls to enable it to comply with its obligations, the Company is reliant upon the performance of third party service providers for its executive function. In particular, the Investment Adviser, the Custodian, the Administrator and the Registrar perform services which are integral to the operation of the Company. Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Company.

The past performance of the Company or of other investments managed or advised by the Investment Adviser or its affiliates cannot be relied upon as an indicator of the future performance of the Company. Investor returns are dependent upon the Company, Master Fund II and Master Fund III successfully pursuing their respective investment policies. The success of the Company depends, *inter alia*, on the Investment Adviser's ability to identify, acquire and realise investments in accordance with the investment policy. This, in turn, depends on the ability of the Investment Adviser to apply its investment processes in a way which is capable of identifying suitable investments for the Company, Master Fund II and Master Fund III to invest in. There can be no assurance that the Investment Adviser will be able to do so or that Master Fund II or Master Fund III will be able to invest its assets on attractive terms or generate any investment returns for Shareholders or avoid investment losses.

***The Company has very limited ability to redeem or transfer its investments in or withdraw from Master Fund II or Master Fund III***

Pursuant to the respective terms of the MFII Partnership Agreement and MFIII Partnership Agreement, without the consent of the General Partner, the Company may not transfer or redeem its interest in, or otherwise withdraw from Master Fund II or Master Fund III. If a material adverse event occurs in relation to Master Fund II or Master Fund III or the market generally, the ability of the Company to avoid or mitigate further adverse exposure is limited by its limited ability to redeem its interest in, or otherwise withdraw from, Master Fund II or Master Fund III. Also, the circumstances under which Master Fund II or Master Fund III can be terminated prior to its term are extremely limited. These could have a materially adverse effect on the value of the Shares and the ability of investors to dispose of the Shares at a satisfactory price or at all. The aforementioned risk also applies to Master Fund II since the Company expects that Master Fund III is, following Admission, likely to hold a majority of the limited partnership interests in Master Fund II, subject to completion of the Reorganisation Proposal.

***In specie distributions at Master Fund II level or at Master Fund III Level***

In specie distributions to Limited Partners are permitted under the MFII Partnership Agreement and under the MFIII Partnership Agreement on the termination of Master Fund II and Master Fund III respectively and in certain additional limited circumstances. This gives rise to the risk of a delay in making distributions to Shareholders as the Company may need to dispose of the in specie distribution which it receives from Master Fund II or Master Fund III first.

**1B. Risks relating to Master Fund II and Master Fund III**

***There can be no guarantee that Master Fund II or Master Fund III will achieve their respective investment objectives or that investors will get back the full value of their investment.***

The Company's target return is based on a number of assumptions, including interest rates, default and recovery rates, prepayment rates and reinvestment rates. Economic conditions, interest rate fluctuations and other changes in market conditions or investor perceptions may affect the value of investments and there can be no guarantee that investments will generate the expected returns or that Master Fund II or Master Fund III will recover the full value of their investments.

The Company expects that, following the completion of the Reorganisation Proposal, Master Fund III is likely to hold a significant limited partnership interest in Master Fund II (subject to completion of the Reorganisation Proposal) and so the return of Master Fund III will to a significant extent be dependent upon the performance of Master Fund II and any failure of Master Fund II to achieve its investment objective and policy will have a significant adverse impact on Master Fund III.



***Failure by service providers to Master Fund II or Master Fund III to perform their obligations could materially disrupt or damage the business of Master Fund II or Master Fund III with adverse effects on their business or performance***

Neither Master Fund II nor Master Fund III has any employees and, therefore, each relies upon the performance of third-party service providers to perform its executive functions. The performance of Master Fund II and Master Fund III (and, in turn, the Company) is reliant on the General Partner. The General Partner has complete discretion as to the implementation and realisation of the investment policies applicable both to Master Fund II and Master Fund III. In particular, the performance of the Company is likely to be dependent on the effectiveness of the General Partner's management of Master Fund II's and Master Fund III's respective investments. The Company has no direct control over the investments made by Master Fund II or Master Fund III. Failure by any service provider to carry out its obligations to Master Fund II and Master Fund III in accordance with the terms of its respective appointment without exercising due care and skill, or to perform its obligations to Master Fund II or Master Fund III at all as a result of insolvency or other causes could have a materially adverse effect on the performance of Master Fund II and Master Fund III and returns to the Company and the Shareholders. The termination of Master Fund II's or Master Fund III's relationship with any third-party service provider, or any delay in appointing a replacement for such service provider, could materially disrupt the business of Master Fund II or Master Fund III (as the case may be) and could have a material adverse effect on the performance of Master Fund II or Master Fund III and on the returns to the Company and the Shareholders.

***The performance of Master Fund II or Master Fund III may be adversely affected should one or more key individuals cease to be directors, members or employees of Fair Oaks Capital***

The success of Master Fund II and Master Fund III (and, in turn, the Company) depends to a great extent on the diligence, skill and business contacts of the individuals within Fair Oaks Capital to provide investment opportunities and advice to the General Partner. The departure of any of these individuals for any reason, or the failure to appoint qualified or effective successors in the event of such departures, could have a material adverse effect on the performance of Master Fund II and/or Master Fund III and on the returns to the Company. Furthermore, Fair Oaks Capital provides its services to the General Partner (and to the Company) on a non-exclusive basis.

Furthermore, under the MFIII Partnership Agreement, if, until the end of the Commitment Period, both Miguel Ramos Fuentenebro and Roger Coyle cease to be active members or officers of the General Partner, the Investment Adviser or their associates, the MFIII Advisory Committee will have the right to suspend the Commitment Period such that Master Fund III will no longer be able to make new investments (except for investments already committed to). This could have a material adverse effect on the performance of Master Fund III and on the returns to the Company.

***A failure to identify and acquire suitable investments in a timely fashion would reduce returns to investors***

The success of the Master Funds and, in turn, the Company, is dependent upon, *inter alia*, the identification, acquisition and management of suitable investments which meet the Master Funds' investment criteria. There can be no guarantee that the Master Funds will be able to identify, in a timely fashion, such investments on financially attractive terms or that such investments will be successful. Poor performance by any investment would adversely affect the total returns to Shareholders. In addition, the Master Funds may be unable to fully invest their assets, limiting the spread of investments within their portfolios. Even if suitable investments are identified, the Master Funds may experience a delay in deploying their capital in the funding of investments or such funding may be made at a relatively slow rate because of due diligence, regulatory issues and negotiations required before such investments may be funded. It may therefore take a significant amount of time to invest the Master Funds' capital fully. Delay in the ability of the Master Funds to secure suitable investments might adversely affect returns to the Company.

Shareholders will not have an opportunity to evaluate for themselves the relevant economic, financial and other information regarding the investments to be made by the Master Funds and, accordingly, will be dependent upon the ability of the General Partner and the Investment Adviser to identify appropriate investment opportunities and on the judgment and ability of the General Partner and the Investment Adviser in investing and managing the assets of the Master Funds. No assurance can be given that the Master Funds will be successful in obtaining suitable investments, or that if such

investments are made, the investment objective as it applies to Master Fund II or Master Fund III will be achieved.

***Failure by Master Fund II to achieve its investment objective will also impact the performance of Master Fund III***

Depending on the number of Shareholders whose shares are to be re-designated as 2021 Shares, under the Reorganisation Proposal, Master Fund III will likely hold a majority of the limited partnership interests in Master Fund II. Therefore, all the risks relating to Master Fund II would also apply to Master Fund III. Failure by Master Fund II to achieve its investment objective will also impact the performance of Master Fund III, as Master Fund III will likely hold a majority of the limited partnership interests in Master Fund II upon the Reorganisation Proposal taking effect.

***The Master Funds are subject to contagion risks***

In the unlikely event either Master Fund II or Master Fund III were unable to pay its debts, the General Partner would have unlimited liability for those debts and if the assets of the General Partner were insufficient to meet Master Fund II's or Master Fund III's liabilities (as the case may be) then the General Partner would also be declared insolvent. Under the Partnership Law, the insolvency of a general partner would trigger the dissolution of each limited partnership for which it acts. Accordingly, the insolvency of the General Partner resulting from the inability of Master Fund II to pay its debts would trigger the dissolution of Master Fund III (or vice versa) unless a new general partner were appointed.

***The Master Funds operate in a competitive environment***

Master Fund II and Master Fund III compete with other similar funds and market participants (such as public or private investment funds) for investment opportunities. The number of such funds and market participants competing with the Master Funds, and the scale of assets managed by such entities, may increase during the life of Master Fund II or Master Fund III.

For example, new funds or investment vehicles with investment policies and objectives similar to the Master Funds may be formed in the future. Such competitors may have greater financial, technical and marketing resources than are available to Master Fund II and Master Fund III or they may also have a lower cost of capital and access to funding sources that are not available to Master Fund II or Master Fund III, which may create competitive disadvantages with respect to investment opportunities. Some of these competitors may have higher risk tolerances or different risk assessments than Master Fund II or Master Fund III, which could allow them to compete more aggressively. The net effect of these developments may be to reduce the opportunities available to Master Fund II and/or Master Fund III to generate returns and/or reduce the quantum of these returns, both/either of which would in turn affect the returns to the Company as a result.

**2. Risks relating to the nature and characteristics of the Company's and the Master Funds' investments**

***The medium and long-term impacts of Covid-19 are hard to predict, rapidly-evolving and may be materially more severe and/or more permanent than anticipated***

On 11 March 2020, the World Health Organisation announced that the outbreak of Covid-19 (commonly referred to as Coronavirus) had been declared a global pandemic. The economic disruption related to Covid-19 has had significant short-term impacts, increasing the number of defaults in the loan markets and depressing valuations of Master Fund II's investments. The medium and long-term impacts of Covid-19 disruption on the fundamental performance of the Master Funds' investments and on their valuation are hard to predict, rapidly-evolving and may be materially more severe and/or more permanent than anticipated and will depend on the future development of the virus and the effectiveness of vaccines, restrictions on, and changes in, consumer behaviours and any mitigating actions taken by governments.

The future development of the pandemic is highly uncertain and the outbreak could continue to have an adverse impact, which might be materially worse and/or longer than anticipated, on the financial condition and future results of the Master Funds' investments and may result in greater volatility in the Master Funds' (and in turn, the Company's) Net Asset Value and may materially and adversely affect the performance of the Company and returns to Shareholders.

***Non-investment grade loans are subject to higher credit risk and may be less liquid than investment grade loans or bonds***

Master Fund II invests, and Master Fund III may invest, in portfolios of non-investment grade loans. These loans are considered to be subject to greater risk of loss of interest and principal than investment grade sovereign or corporate loans or bonds, including a greater possibility of default or bankruptcy of the issuer of such loans. The markets for non-investment grade loans are smaller and may be less liquid than for higher rated securities and changing market conditions or investor perceptions may have a greater impact on the market values of non-investment grade loans than on higher rated securities. Losses from defaults within the loan portfolios in which the Master Funds invest/may invest, and from the sale of loans from those portfolios at distressed levels, will impact the returns to the Master Fund(s).

***The rates at which loans are prepaid and proceeds reinvested may have an impact on returns***

Loans may typically be prepaid by the issuer with limited or no penalties. Prepayments are influenced by changes in current interest rates and a variety of economic and other factors beyond Master Fund II's and Master Fund III's control and, consequently, such prepayment rates cannot be predicted with certainty. There can be no assurance that the proceeds of prepayments within loan portfolios can be reinvested at similar returns. To the extent that prepayment proceeds cannot be reinvested or are reinvested in lower-yielding loans, this will have a negative impact on the returns from the loan portfolio.

***Investments in CLO income notes and mezzanine notes will be subordinated to the more senior debt of the CLOs***

Master Fund II invests, and Master Fund III may invest, in CLO income notes and mezzanine notes. Payments of interest and principal to holders of these notes are made from the cash flows received on the underlying loans held by the CLO only after all senior ranking note holders and expenses of the CLO have been paid. As such, Master Fund II's and Master Fund III's investments are/will be particularly susceptible to losses resulting from defaults within the CLOs' loan portfolios. Because of their subordinated position, credit losses and changes in market conditions or investor perceptions may have a greater impact on the market value of CLO income notes and mezzanine notes than on the market value of the underlying loans.

***Investments in CLOs will depend in part on the performance and operational effectiveness of the managers of the CLOs***

The performance of the Master Funds' investments in CLOs will depend in part upon the performance and operational effectiveness of the managers of the CLOs. While Master Fund II and Master Fund III expect to take majority stakes in the income notes of CLOs and to influence, through the General Partner, the formation and management of their investments, they will not control the portfolios of assets underlying the CLOs in which they invest and will rely on the managers of the CLOs to select and monitor the CLO's assets. The actions and operational effectiveness of the managers of the CLOs in which the Master Funds invest may have a negative impact on the income from and value ultimately attained for the Master Funds' investments.

***Cash flow to holders of CLO income notes is subject to deferral in certain circumstances***

CLOs include a number of tests intended to ensure a minimum diversity and quality of the CLO's loan portfolio. A breach of one or more of these tests can restrict the ability of the CLO to continue to reinvest loan prepayments, which could have a negative impact on the cash flows available to make distributions to the holders of the CLO income notes. CLOs also include minimum par value and interest coverage ratio tests which, if breached, can result in deferral of cash flows to the holders of income notes as interest received on loans that would have been used to make distributions to the holders of income notes is diverted to invest in further loans or prepay more senior liabilities of the CLO. Other clauses in the documentation of CLO investments and the actions taken or not taken by the CLO manager may also have a negative impact on the value of Master Fund II's and Master Fund III's investments.

***The reform of or disruption to interest rate benchmarks may affect the returns available on the assets in which the Master Funds invest***

The FCA's long stated intention to cease sustaining the London Interbank Offered Rate ("LIBOR") from the end of 2021 was confirmed by way of a March 2021 announcement that a significant number of LIBOR settings will cease immediately after 31 December 2021 with further settings to cease thereafter or to continue on a changed methodology basis. The Euro Interbank Offered Rate ("EURIBOR"), together with LIBOR, and other so-called "benchmarks" are the subject of reform measures by a number of international authorities and other bodies. Regulation (EU) 2016/1011 (the "EU Benchmarks Regulation"), applicable since 1 January 2018 across the EU, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and to comply with extensive requirements in relation to the administration of benchmarks and (ii) prevents certain uses by EU-supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU-based, deemed equivalent or recognised or endorsed). A similar regime applies in the UK by virtue of the European Union (Withdrawal) Act 2018 (the "UK Benchmarks Regulation"). The scope of the EU Benchmarks Regulation and UK Benchmarks Regulation is wide and, in addition to so-called "critical benchmark" indices (including LIBOR and EURIBOR), could also potentially apply to many interest rate and foreign exchange rate indices, equity indices and other indices (including "proprietary" indices or strategies) where used to determine the amount payable under or the value or performance of certain financial instruments traded on a trading venue, financial contracts and investment funds. Accordingly and notwithstanding the FCA's announcements, benchmarks such as LIBOR or EURIBOR may be discontinued if they do not comply with the requirements of the EU Benchmarks Regulation or the UK Benchmarks Regulation, as applicable, or if the administrator of the benchmark either fails to apply for authorisation or is refused authorisation by its home regulator.

In addition, if any of LIBOR, EURIBOR or other related benchmarks is materially disrupted, calculated in a different way or discontinued and no equivalent or fall-back is available and/or provided for by the relevant documentation, this could have a material adverse effect on the value of, and the amount payable under, any investment assets which pay interest linked to a LIBOR or EURIBOR rate or other benchmark (as applicable), as well as any hedging that may be dependent on such benchmarks. If any changes are implemented in the way in which LIBOR or EURIBOR is calculated with respect to floating rate assets, this could also result in the rate of interest being lower than anticipated, which would adversely affect the value of interests in the Master Funds (which would in turn adversely affect the returns to the Company). Furthermore, in the event that these benchmarks are changed, questions surrounding the integrity in the process for their determination may have other unforeseen consequences, including potential litigation against banks and/or obligors on loans, which could also result in a material and adverse effect on holders of this type of asset, such as the Master Funds.

A substantial proportion of the Master Funds' investments are likely to be affected by the changes to benchmark indices described above, which could also lead to adverse market conditions. These events may have an adverse effect on the amounts available to the Master Funds to pay on interests in the Master Funds (which would in turn adversely affect the returns to the Company) and prospective investors should consider these recent developments when making their investment decision with respect to the Company.

***The secondary market for CLO investments may not be as liquid as the market for investment grade loans or bonds***

The secondary market for CLOs may not be as liquid as the secondary market for investment grade sovereign or corporate loans or bonds. As a result, the General Partner could find it more difficult to sell these investments or may be able to sell them only at prices lower than if they were widely traded. It may be difficult to establish accurate prices in such investments for the purposes of calculating the net asset values of Master Fund II and Master Fund III. Therefore, prices realised upon the sale of such investments, under these circumstances, may be lower than the prices used in calculating the net asset values of Master Fund II and Master Fund III.

***Investments in CLOs are subject to fees charged by the CLO managers***

Master Fund II invests, and Master Fund III may invest, in CLOs which are subject to management and performance fees charged by the manager of the CLOs. These are in addition to those payable



by the Master Funds to the General Partner. Payment of such fees could have a negative impact on the returns achieved by the Master Funds and, in turn, by the Company.

### **US, UK and EU risk retention rules**

On 21 October 2014, the final rules implementing the credit risk retention requirements of Section 941 of the Dodd-Frank Act (the “**US Risk Retention Rules**”) were issued. The US Risk Retention Rules generally require a “sponsor” of asset-backed securities or its “majority-owned affiliate” (as defined in the US Risk Retention Rules) to retain not less than 5 per cent. of the credit risk of the assets collateralising asset-backed securities.

On February 9, 2018, the United States Court of Appeals for the District of Columbia Circuit ruled in favour of the Loan Syndications and Trading Association (LSTA) in its lawsuit against the Securities and Exchange Commission and the Board of Governors of the Federal Reserve System to the effect that an “open market CLO” was not to be subject to the US Risk Retention Rules. As a result, whereas a regular “open market” CLO (being one where the underlying assets are bought into the CLO from a wide range of vendors) is not required to comply with the U.S. Risk Retention Rules, any other kind of CLO (including CLOs that use an originator that contributes a significant proportion of the underlying assets to a CLO) will likely have to comply. No assurance can be made whether or not any governmental authority will continue to take further legislative or regulatory action in response to past or future economic crises, or otherwise, including by adopting new US credit risk retention rules that apply to CLO securities, and the effect (and extent) of such actions, if any, and any possible impact on the Master Funds and their respective ability to invest in US CLOs cannot be known or predicted.

In the EU and the United Kingdom, equivalent risk retention rules (the “**UK and EU Risk Retention and Due Diligence Rules**”) apply in respect of various types of UK and EU regulated investors including institutions for occupational retirement, credit institutions, alternative investment fund managers who manage or market alternative investment funds in the EU, investment firms, insurance and reinsurance undertakings and management companies of UCITS funds which are set out in Regulation (EU) 2017/2402 of the European Parliament and of the Council of the 12 December 2017 (as amended, varied or substituted from time to time and as implemented by the Member States of the European Union), including any implementing regulation, technical standards and official guidance related thereto (the “**EU Securitisation Regulation**”) and which forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018, as amended by the Securitisation (Amendment) (EU Exit) Regulations 2019 of the United Kingdom and as further amended, varied or substituted from time to time as a matter of UK law, including (i) any technical standards thereunder as may be effective from time to time and (ii) any guidance relating thereto as may from time to time be published by the UK Financial Conduct Authority and/or the UK Prudential Regulation Authority (or, in each case, any successor (the “**UK Securitisation Regulation**”, and together with the EU Securitisation Regulation, the “**Securitisation Regulations**”). These requirements restrict such investors from investing in securitisations unless such investors have verified that: (i) the originator, sponsor or original lender will retain, on an on-going basis, a material net economic interest of not less than 5 per cent. in the securitisation and the risk retention is disclosed to the investor, (ii) the originator, sponsor or securitisation special purpose entity has, where applicable, made available the information required by Article 7 of the Securitisation Regulations in accordance with the frequency and modalities provided for in that Article, and (iii) where the originator or original lender is established in the EU, and is not a credit institution or an investment firm, the originator or original lender grants all the credits giving rise to the underlying exposures on the basis of sound and well-defined criteria and clearly established processes for approving, amending, renewing and financing those credits and has effective systems in place to apply those criteria and processes in accordance with Article 9(1) of the Securitisation Regulations. Failure to comply with one or more of the requirements may result in various penalties including, in the case of those investors subject to regulatory capital requirements, the imposition of a punitive capital charge on the notes acquired by the relevant investor, which may be deemed to include any such notes acquired indirectly by way of an investment in the Company and the Master Funds.

Aspects of the UK and EU Risk Retention and Due Diligence Rules and what is or will be required to demonstrate compliance to national regulators remain unclear and accordingly any impact on the Master Funds remain unclear.

***Default risks associated with Master Fund II and/or Master Fund III acting as originator and risk retention holder in respect of CLOs***

Master Fund II currently acts, and Master Fund III may act (in each case including through an associated entity), directly or indirectly, as originator and risk retention holder for Securitisation Regulation purposes in respect of CLOs. As originator, the Master Funds purchase/will purchase a third party's exposure to loans on their respective own accounts and securitise them, retaining for itself as "**Retention Holder**" a material net economic interest of not less than 5 per cent. in the securitisation (that is, the CLO). In practice, this would be achieved by the Retention Holder acquiring a least 50 per cent. of the loans to be held by the relevant CLO and entering into a forward purchase agreement pursuant to which the relevant CLO commits to purchase and settle the loans on a date no earlier than 15 business days afterwards. This means that the Retention Holder would be exposed to default risk on those loans during the 15 business day seasoning period. Should such default risk materialise, this could have an adverse effect on the performance of the relevant Master Fund and on the returns received by the Company.

***Liability for breach of a risk retention letter***

The arranger of and certain other parties to a CLO in which a Master Fund (or an entity associated with it) agrees to hold the retention interest as Retention Holder will require it to execute a risk retention letter with respect to the requirements of the UK and EU Risk Retention and Due Diligence Rules. Under a risk retention letter the Retention Holder will typically be required to, amongst other things, make certain representations, warranties and undertakings: (a) in relation to its acquisition and retention of the CLO retention investment for the life of the CLO; and (b) regarding its agreement to act as originator to that CLO. If the Retention Holder sells or is forced to sell its retention investment prior to the maturity of the relevant CLO, or if it holds insufficient cash or investments to continually sell the assets to the CLO as described above or for any other reason such Retention Holder is not considered to be an "originator" for the purposes of the UK and EU Risk Retention and Due Diligence Rules, that Retention Holder may be in breach of the terms of the related risk retention letter. In such circumstances the arranger of the relevant CLO and the other parties to the related risk retention letter would have recourse to the Retention Holder for losses incurred as a result of such breach. Such claims could have an adverse effect on the performance of the relevant Master Fund and on the returns received by the Company.

***Currency hedging may not effectively eliminate currency risk***

While the Master Funds intend to hedge their currency exposure in any investments that are not denominated in US\$ for the purposes of efficient portfolio management, there can be no guarantee that this hedging will be entirely effective in eliminating the exposure to non US\$ currencies. The Master Funds will also be exposed to counterparty risk associated with their hedging.

***Due diligence processes undertaken on investments may not reveal all material facts or circumstances***

When making an assessment regarding an investment, the General Partner may rely on resources available to it. Time and information constraints in investment opportunities may limit the ability of the General Partner to conduct detailed due diligence. Accordingly, there can be no assurance that any research and information gathering exercise carried out with respect to any investment opportunity will reveal or highlight all relevant facts that may be necessary or helpful to the General Partner in evaluating such investment opportunity. This could lead to failure to identify issues on an investment which could have a significant adverse effect on the performance of the Master Funds and returns received by the Company.

***European market infrastructure regulation risks***

EU Regulation No 648/2012 on over-the-counter derivatives, central counterparties and trade repositories (also known as the European Market Infrastructure Regulation, or "**EMIR**") has been in force since 16 August 2012. EMIR, like Dodd-Frank, has its origins in the commitment made at the 2009 G20 summit in Pittsburgh, the key objective being to increase transparency and reduce systemic risk in the derivatives markets. EMIR seeks to address such objectives by way of the three key obligations it has introduced which apply to prescribed categories of legal counterparties and derivatives contracts: (i) the mandatory clearing obligation for over-the-counter ("**OTC**") derivatives; (ii) the reporting obligation for all derivatives; and (iii) the introduction of risk mitigation techniques



for OTC derivatives which are not centrally cleared, including timely confirmation of terms, portfolio reconciliation, dispute resolution and the exchange of collateral. The extent to which these obligations apply (with limited exception) depends on an entity's EMIR classification, the three categories being so called “**FCs**” (financial counterparties, broadly defined but comprising various types of EU regulated and authorised entities), “**NFCs**” (non-financial counterparties, being any entity other than a FC or clearing house established in the EU) and “**NFC+s**” (NFCs which exceed the so called “clearing threshold” being RTS prescribed levels of derivatives activities deemed by EMIR to trigger a higher level of EMIR compliance). The Master Funds will each be treated as equivalent to an FC for the purposes of EMIR and, if trading with EU dealers, will consequently be subject to the clearing obligation, the reporting obligation and the risk mitigation requirements.

The EU regulatory framework and legal regime relating to derivatives is set not only by EMIR but also by MiFID II, which requires transactions between FCs and NFC+s in sufficiently liquid OTC derivatives to be executed on a trading venue which meets the requirements of the MiFID II regime.

Whilst the General Partner does not believe that compliance with EMIR will impair the Master Funds or materially adversely affect their ability to implement their respective investment strategies, EMIR compliance shall result in the Master Funds incurring direct and indirect compliance costs, which may affect their returns (and consequently, returns to the Company and the Shareholders).

Pursuant to Article 12(3) of EMIR, any failure by the relevant Master Fund(s) to comply with the rules under Title II of EMIR should not make the relevant OTC derivative invalid or unenforceable or give rise to any right to compensation from a party to an OTC derivative contract. However, such failure may cause the relevant Master Fund(s) to be liable for a fine and if such fine is imposed on it/them, the return on its/their investments may also be affected (and returns to the Company and the Shareholders may also be affected as a consequence).

***The custody of the Master Funds’ investments may be delegated to third party sub-custodians and the Master Funds’ investments may be subject to custody risks***

Sub-custodian agreements may not be on similar terms to the custodian agreements which Master Fund II and Master Fund III have entered into with the Custodian and MFIII Custodian respectively, and the Master Funds may not have privity of contract with sub-custodians. The Custodian and MFIII Custodian may not assume liability for the non-performance of sub-custodians and is not obliged to commence legal proceedings on behalf of the relevant Master Fund, which could result in losses to the relevant Master Fund and which could have an adverse effect on the returns to the Company.

**3. Risks relating to the General Partner and the Investment Adviser**

***Master Fund II’s and Master Fund III’s performances are each dependent on the General Partner***

All decisions with respect to the investment of Master Fund II’s and Master Fund III’s resources and the management of Master Fund II’s and Master Fund III’s investment portfolio are undertaken by the General Partner. The growth of Master Fund II’s and Master Fund III’s investment portfolios are substantially dependent upon the effective performance by the General Partner of its respective obligations. Master Fund II’s and Master Fund III’s ability to implement and realise their respective investment policies depends on the skills and expertise of the General Partner in implementing the various aspects of Master Fund II’s and Master Fund III’s investment strategies. The investment policies of Master Fund II and the investment policy of Master Fund III provide the General Partner with substantial discretion when selecting, acquiring, monitoring and disposing of investments, including in determining the type of investments that it deems appropriate, the investment approach that it follows when making investments and the timing of investments. While the Board will periodically review the General Partner’s compliance with Master Fund II’s investment policy and Master Fund III’s investment policy, it will not review or approve individual investment decisions.

The success of Master Fund II, Master Fund III and, in turn, the Company depends to a great extent on the diligence, skill and business contacts of the individuals within the General Partner. The departure of any of these individuals for any reason, or the failure to appoint qualified or effective successors in the event of such departures, could have a material adverse effect on the performance of Master Fund II and Master Fund III and returns to the Company. Furthermore, the General Partner provides its services to Master Fund II and Master Fund III on a non-exclusive basis.

Any failure by the General Partner to manage Master Fund II's and Master Fund III's investments or to effectively implement the investment strategy of either of Master Fund II and/or Master Fund III could have a material adverse effect on the performance of Master Fund II and/or Master Fund III and on returns to the Company.

***The General Partner may face potential conflicts of interest relating to its role as general partner of both Master Fund II and Master Fund III***

The General Partner may face potential conflicts of interest relating to its role as general partner of both Master Fund II and Master Fund III. For example, the General Partner will dispose of investments on behalf of Master Fund II and also reinvest the resulting principal proceeds received by Master Fund III. The optimum time for Master Fund II to dispose of investments may not coincide with the optimum time for Master Fund III to receive and reinvest principal proceeds. Whilst the General Partner will seek to manage any such conflicts of interest by making decisions for Master Fund II and Master Fund III independently and in the best interest of each, in the event that a conflict of interest is not adequately managed this may cause have an adverse effect on the performance of either Master Fund II or Master Fund III.

The General Partner to Master Fund II and Master Fund III may also act as general partner to other limited partnership vehicles (including entities associated with Master Fund II and Master Fund III) managed or advised by Fair Oaks Capital with similar investment objectives to the Master Funds, and so may face further conflicts in such respect as more particularly described below.

***The Investment Adviser may face potential conflicts of interest relating to its role as the investment adviser of the Company and of the Master Funds***

The success of Master Fund II and Master Fund III (and, in turn, the Company) depends to a great extent on the Investment Adviser which provides advice and investment opportunities to the General Partner. Conflicts of interest may arise from the fact that the Investment Adviser and its affiliates provide services to clients other than the Company, Master Fund II or Master Fund III, including, without limitation, investment funds, separately managed accounts, proprietary accounts and other investment vehicles and/or the General Partner act as general partner to limited partnerships other than the Master Funds (collectively, "**Other Accounts**" and, together with the Company, Master Fund II and Master Fund III, the "**Accounts**" and each, an "**Account**"). The Company, Master Fund II and Master Fund III may have an interest in certain of the Other Accounts.

Other Accounts may have investment objectives, programmes, strategies and positions that are similar to or may conflict with those of the Company, Master Fund II or Master Fund III, or may compete with or have interests adverse to the Company, Master Fund II or Master Fund III. Such conflicts could affect the prices and availability of financial instruments in which Master Fund II or Master Fund III invests. Even if an Other Account has investment objectives, programmes or strategies that are similar to those of the Company, Master Fund II or Master Fund III, the Investment Adviser may give advice or take action with respect to the investments held by, and transactions of, the Other Accounts that may differ from the advice given or the timing or nature of any action taken with respect to the investments held by, and transactions of, Master Fund II or Master Fund III due to a variety of reasons, including, without limitation, differences between the investment strategy, financing terms, regulatory treatment and tax treatment of the Other Accounts and the Company, Master Fund II and Master Fund III. As a result, the Company, Master Fund II and/or Master Fund III and an Other Account may have substantially different portfolios and investment returns.

***Risks relating to investments in CLOs managed by Fair Oaks Capital***

Master Fund II invests, and Master Fund III (and entities associated with Master Fund II and Master Fund III) may invest, in CLOs to which Fair Oaks Capital acts as collateral manager. Fair Oaks Capital may face potential conflicts of interest relating to its role as Investment Adviser and collateral manager to such CLOs. Whilst Fair Oaks Capital will seek to manage any such conflicts of interest by giving appropriate advice to the General Partner and making decisions for such CLOs independently and in the best interest of each, in the event that a conflict of interest is not adequately managed this may cause have an adverse effect on the performance of either the Company, Master Fund II or Master Fund III.

***It is possible only in very limited circumstances to terminate the General Partner's appointment without terminating Master Fund II or Master Fund III, but this would be a very difficult and costly process***

It is impossible to remove the General Partner without terminating Master Fund II or Master Fund III. A notice to terminate Master Fund II or Master Fund III in the event of a material breach by the General Partner of the MFII Partnership Agreement or the MFIII Partnership Agreement (as the case may be) or a breach by it of the investment policy of Master Fund II or Master Fund III can only be served following a judgment by a court of law of competent jurisdiction and if such breach has been shown to have resulted in Master Fund II or any of the Limited Partners of Master Fund II (or Master Fund III or any of the Limited Partners of Master Fund III) suffering a material financial disadvantage. Although the MFII Partnership Agreement and the MFIII Partnership Agreement each contain provisions enabling Master Fund II/Master Fund III to be reconstituted, this can only be done pursuant to a Majority Consent in each case and requires that a new general partner be elected immediately. It can be extremely difficult to find a replacement general partner for Master Fund II or Master Fund III and this process can be very costly and would therefore have a material adverse effect on the performance of Master Fund II, Master Fund III and on the returns to the Company.

#### **4. Risks relating to the Shares**

##### ***The Company's shares may not trade in line with their net asset value***

The value of an investment in the Company, and the returns derived from it, if any, may go down as well as up and an investor may not get back the amount invested.

The market price of C Shares and 2021 Shares, like shares in all investment companies, may fluctuate independently of its relevant underlying net asset value and may trade at a discount or premium at different times, depending on factors such as supply and demand for the Shares, market conditions and general investor sentiment. There can be no guarantee that any discount or premium control policy will be successful or capable of being implemented. The market value of C Shares and 2021 Shares may vary considerably from their respective net asset value per share.

The net asset value per share may not be an accurate guide to the value that a Shareholder may realise on a disposal of Shares. Shareholders may not be able to realise an investment in the Company at or close to the net asset value per share.

##### ***It may be difficult for Shareholders to realise their investment and there may not be a liquid market in the Shares***

The price at which the Shares will be traded and the price at which investors may realise their investment will be influenced by a large number of factors, some specific to the Company and its investments and some which may affect companies generally. Admission should not be taken as implying that there will be a liquid market for the Shares. The market price of each class of the Shares may not reflect its relevant underlying net asset value.

The Company is a Registered Closed-ended Collective Investment Scheme. Accordingly, Shareholders will not be entitled to have their Shares redeemed by the Company. While the Directors have the power to redeem Shares in the Company (at their discretion only) under the Articles and also retain the right to effect repurchases of the Shares in the manner described in this document with a view to reducing any discount to net asset value per Share, they are under no obligation to use such powers at any time and the Shareholders should not place any reliance on the willingness of the Directors to do so. A buyback of Shares may not be conducted on a basis which is *pro-rata* to the shareholdings of Shareholders.

Shareholders wishing to realise their investment in the Company will therefore be required to dispose of their Shares through trades on the main market of the London Stock Exchange or negotiate transactions with potential purchasers. Accordingly, Shareholders' ability to realise their investment is in part dependent on the existence of a liquid market in the Shares and on the extent of its liquidity. Investors should not expect that they will necessarily be able to realise, within a period which they would otherwise regard as reasonable, their investment in the Shares, nor can they be certain that they will be able to realise their investment on a basis that necessarily reflects the value of the underlying investments held by Master Fund II or Master Fund III (as the case may be).

***The Company may issue additional securities that dilute the voting rights of existing holders of Shares***

The Company may seek to issue new Shares in the future and there are no provisions of Guernsey law which confer rights of pre-emption in respect of the issue of Shares. While the Articles contain pre-emption rights for Shareholders in relation to issues of Shares in consideration for cash, such rights can be dis-applied. Where pre-emption rights are dis-applied (and they have been dis-applied in respect of the issue of Shares pursuant to the Placing Programme), any additional issue of Shares will be dilutive to the voting interests of those Shareholders who cannot, or choose not to, participate in such issue of Shares.

***The C Shares are subject to specific risks***

The net asset value performance of any tranche of C Shares may diverge significantly from that of the 2021 Shares between the admission of the relevant tranche of C Shares to trading on the Main Market of the London Stock Exchange and conversion of such C Shares into 2021 Shares.

Trading liquidity in C Shares may be lower than in the 2021 Shares which may affect: (i) a Shareholder's ability to realise some or all of its investment; (ii) the price at which such Shareholder can effect such realisation; and/or (iii) the price at which C Shares trade in the secondary market. Accordingly, Shareholders may be unable to realise their investment at Net Asset Value per C Share or at all. C Shareholders' returns will be dependent on the deployment of cash raised in a timely manner. Dividends will be declared on a particular tranche of C Shares only in the event that there is material net income available for distribution to that particular tranche of C Shares.

***The different classes of Shares are not segregated in the event of insolvency***

The assets attributable to each tranche of C Shares will be accounted for and managed as a separate pool of assets of the Company, distinct from the assets attributable to the 2021 Shares until their Conversion Date and distinct from the assets attributable to the Realisation Shares. Similarly, the assets attributable to the Realisation Shares will be accounted for and managed as a separate pool of assets of the Company, distinct from the assets attributable to the 2021 Shares and distinct from the assets attributable to the C Shares, and the assets attributable to the 2021 Shares will be accounted for and managed as a separate pool of assets of the Company, distinct from the assets attributable to the Realisation Shares and distinct from the assets attributable to the C Shares. Each tranche of C Shares will form a separate underlying pool of assets and liabilities from other tranches of C Shares. However, these different classes of Shares are not segregated in the event of insolvency, which means that the assets attributable to one class may be used to meet liabilities attributed to another class.

***Risks applicable to securities admitted to trading on the SFS***

The SFS is a peer group market for closed-ended investment companies employing more sophisticated structures and investment management remits and which are seeking professional, institutional and highly knowledgeable investors. SFS securities are not admitted to the Official List and accordingly the rights and protections set out in the Listing Rules (such as those relating to significant transactions and related party transactions) will not be afforded to holders of a security traded on the SFS.

No assurance can be given that, at any time, a liquid market for the C Shares or the 2021 Shares will develop or, if developed, that any such market will be sustained. A Shareholder should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser authorised under FSMA who specialises in advising on the acquisition of shares and other securities. The value of C Shares and 2021 Shares may go down as well as up. Shareholders may therefore realise less than the original amount of their investment and could lose their entire investment. The market value of the C Shares and the 2021 Shares may not necessarily reflect the underlying net asset value.

If an active trading market is not developed or maintained, the liquidity and trading price of the C Shares and the 2021 Shares may be adversely affected. Even if an active trading market develops, the market price of the C Shares and the 2021 Shares may not reflect the value of the underlying investments of the Company.



## **5. Risks relating to regulation and taxation**

### ***Changes in law or regulation may adversely affect the Company's ability to carry on its business***

The Company is incorporated under the laws of Guernsey. Accordingly, the rights of Shareholders are governed by the Companies Law and by the Articles, which may differ from the typical rights of shareholders in the UK and other jurisdictions.

The Company, Master Fund II, Master Fund III and the General Partner are each subject to laws and regulations of national and local governments. In particular, the Company is subject to and will be required to comply with certain regulatory requirements that are applicable to listed Registered Closed-ended Collective Investment Schemes which are domiciled in Guernsey. These include compliance with any decision of the Commission and with applicable UK legal requirements. Changes in law or regulations, or a failure to comply with any such laws or regulations, may adversely affect the performance of the Shares and returns to Shareholders.

### ***Possible changes in the tax position of the Company, Master Fund II and Master Fund III, and any changes in, or in the interpretation of, tax legislation, could adversely affect the net amount of any distributions payable to Shareholders or the tax treatment of distributions received by Shareholders***

The structure by which the Company holds its investment in Master Fund II (and will hold its investments in Master Fund III) is based on the Directors' understanding of the current tax law and the practice of the tax authorities of Guernsey (where the Company is incorporated and where Master Fund II and Master Fund III are registered) and the UK. Such law (including applicable rates of taxation) or tax authority practice is subject to change, possibly with retrospective effect. Any change in the Company's, Master Fund II's or Master Fund III's respective tax position or status or in tax legislation, or in the interpretation of tax legislation by tax authorities or courts, or tax rates could adversely affect the value of investments held by the Company or affect the Company's ability to implement and realise its investment policy. Any such change could adversely affect the net amount of any distributions payable to Shareholders or the tax treatment of distributions received by Shareholders. Furthermore, the Company, Master Fund II or Master Fund III may incur costs in taking steps to mitigate this effect. As a result, any such change may have a material adverse effect on the Company's performance, financial condition or prospects.

Furthermore, any change in tax legislation, or in the interpretation of tax legislation by tax authorities or courts, or tax rates could adversely affect the after tax return to Shareholders from their investment in the Company, possibly with retrospective effect.

### ***Were the Company to be treated as tax resident in any jurisdiction other than Guernsey, additional tax costs and reduced returns would result***

The affairs of the Company have been and will be conducted so that the central management and control of the Company is exercised in Guernsey and not in the UK. On this basis, and in light of the provisions of section 363A of the UK's Taxation (International and Other Provisions) Act 2010, it is considered that the Company should not be treated as UK tax resident. However, it cannot be guaranteed that HMRC will not seek to contend the position or that there will not be a change of law which may affect the tax residence status of the Company. The composition of the Board, the manner in which the Board conducts its business and the location(s) in which the Board, and the Company, if other than through the Board, makes decisions will be important in determining and maintaining the non-UK tax residence of the Company. While the Company is incorporated and administered in Guernsey and a majority of its directors are resident outside the UK, and is controlled by its Board solely through its Board meetings, continued attention must be paid to ensure that major decisions by the Company are not made in the UK, to avoid the risk that the Company may lose its non-UK tax residence status.

Were the Company considered UK tax resident this would result in the Company paying more UK tax than is anticipated, which would negatively affect its financial and operating results and accordingly reduce returns (including distributions or dividends) payable to Shareholders.

Even where a company is not UK tax resident, it will potentially be subject to UK corporation tax if it is carrying on a trade in the UK through a permanent establishment in the UK or to UK income tax if it is carrying on a trade wholly or partly in the UK other than through a permanent establishment in the UK, in which case the company will be subject to UK corporation or income tax on the income profits and capital gains attributable to that UK trade. It is intended that the

Company will not undertake any trading activities. It cannot be guaranteed that HMRC will not seek to contend that the Company has acquired one or more of its assets as trading stock and, consequently, is carrying on a trade wholly or partly in the UK or in the UK through a permanent establishment in the UK. If any such contention were correct, this is likely to result in the Company paying more UK tax than is anticipated, which would negatively affect its financial results and returns to Shareholders.

### ***US Investment Company Act***

Because the Company is a feeder fund which invests in a master fund whose business involves the identification and investment in loans and securities related to loans, it is possible that, in the future, the Company will meet the technical definition of an “Investment Company” under the US Investment Company Act of 1940, as amended (Investment Company Act). Investment Companies must register with the SEC and comply with an ongoing strict regime of regulations. The Company believes it qualifies for numerous exemptions from registration as an Investment Company, including a jurisdictional paradigm essentially exempting non-US entities. Although the Placing Programme is not being made available in the United States and qualifies as an offshore transaction under US securities laws, US investors may nevertheless invest in the Company on the secondary market. While the Company believes it to be unlikely, because of the character of its future assets which may attract US investors, it is possible that the SEC may determine that the Company must register and operate as an Investment Company, which will be costly, time-consuming and potentially hinder the Company’s investment returns.

### ***The Company and the Master Funds are subject to due diligence and reporting obligations which may be onerous***

Guernsey has entered into a number of international arrangements which provide for the exchange of information in order to combat tax evasion and improve tax compliance. These include, but are not limited to, FATCA, the Common Reporting Standard (CRS) and a number of other arrangements with particular jurisdictions. In connection with agreements and arrangements of this kind, the Company and the Master Funds may, among other things, be required to collect and report to tax authorities in Guernsey certain information regarding Shareholders and other account holders of the Company and the Master Funds, and tax authorities in Guernsey may pass this information on to the authorities in other jurisdictions. Failure of the Company and the Master Funds to comply with these obligations, which may be onerous, may result in fines being imposed on the Company and the Master Funds and, in such event, the target returns of the Company and the Master Funds may be affected.

### ***The Company may be adversely affected by the UK’s exit from the European Union***

The UK left the European Union on 31 January 2020 (“**Brexit**”), following which a UK-EU withdrawal agreement came into force and the UK entered into an 11 month transition period (the “**Transition Period**”). During the Transition Period, most EU law continued to apply to, and in, the UK and the UK continued to be treated for most purposes as if it were still an EEA Member State. The Transition Period ended on 31 December 2020. Whilst the UK and the EU have concluded a Trade and Cooperation Agreement on the terms of their relationship following the end of the Transition Period, as at the date of this Prospectus, it is not possible to accurately predict the effect which Brexit may have on the value of the Company or on the Investments of Master Fund II and Master Fund III. Brexit could also make it potentially more difficult for the Company to raise capital in the European Union. As such, no assurance can be given that such matters would not adversely affect the activities and performance of the Company, Master Fund II or Master Fund III.



## IMPORTANT INFORMATION

Prospective Shareholders should rely only on the information contained in this document. No person has been authorised to give any information or make any representations other than as contained in this document and, if given or made, such information or representations must not be relied on as having been authorised by the Company, the General Partner, the Investment Adviser, the Administrator, Numis, Liberum or any of their respective affiliates, officers, directors, employees or agents. Without prejudice to the Company's obligations under the UK Prospectus Regulation, Prospectus Regulation Rules, the Disclosure Guidance and Transparency Rules, MAR and the RCIS Rules, neither the delivery of this document or any subscription made under this document shall, under any circumstances, create any implication that there has been no changes in the affairs of the Company since the date of this document or that the information contained herein is correct as at any time after its date.

Prospective Shareholders must not treat the contents of this document or any subsequent communications from the Company, the General Partner, the Investment Adviser, the Administrator, Numis, Liberum or any of their respective affiliates, officers, directors, employees or agents as advice relating to legal, taxation, accounting, regulatory, investment or any other matters.

In connection with the Placing Programme, Numis, Liberum or any of their respective affiliates acting as an investor for its or their own account(s) may subscribe for Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities of the Company, any other securities of the Company or related investments in connection with the Placing Programme or otherwise. Accordingly, references in this document to Shares being issued, offered, subscribed or otherwise dealt with, should be read as including any issue or offer to, or subscription or dealing by, Numis, Liberum or any of their respective affiliates acting as an investor for its or their own account(s). Neither Numis nor Liberum intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. If you are in any doubt about the contents of this document, you should consult your stockbroker, bank manager, solicitor, accountant, legal or professional adviser or other financial adviser.

### General

The information below is for general guidance only and it is the responsibility of any person or persons in possession of this document to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. This document contains statements that are or may be forward-looking statements. All statements other than statements of historical facts included in this document may be forward-looking statements, including statements that relate to the Company's future prospects, developments and strategies.

Forward-looking statements are identified by their use of terms and phrases such as "believe", "targets", "expects", "aim", "anticipate", "projects", "would", "could", "envisage", "estimate", "intend", "may", "plan", "will" or the negative of those, variations or comparable expressions, including references to assumptions. The forward-looking statements in this document are based on current expectations and are subject to known and unknown risks and uncertainties that could cause actual results, performance and achievements to differ materially from any results, performance or achievements expressed or implied by such forward-looking statements. Factors that may cause actual results to differ materially from those expressed or implied by such forward-looking statements include, but are not limited to, those described in the Risk Factors. These forward-looking statements are based on numerous assumptions regarding the present and future business strategies of such entity and the environment in which each will operate in the future. All subsequent oral or written forward-looking statements attributed to the Company, the General Partner, Master Fund II, Master Fund III or any persons acting on their behalf are expressly qualified in their entirety by the cautionary statement above.

Each forward-looking statement speaks only as at the date of this document. Except as required by law, regulatory requirement, the UK Prospectus Regulation, the Prospectus Regulation Rules the Disclosure Guidance and Transparency Rules, the RCIS Rules and MAR, neither the Company nor any other party intends to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise. The contents of these paragraphs relating to forward-

looking statements are not intended to qualify the statements made as to sufficiency of working capital in this document.

## **Distribution of this document**

### ***General***

This document does not constitute, and may not be used for the purposes of, an offer to sell or issue or the solicitation of an offer to buy or subscribe for any Shares to or from any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

The distribution of this document and the offer and sale of Shares may be restricted by law and regulation. No action has been taken or will be taken by the Company, Numis or Liberum that would permit a public offering of the Shares, or possession or distribution of this document, in any jurisdiction where action for that purpose is required. Accordingly, persons into whose possession this document comes are required to inform them about and to observe such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdictions.

Prospective investors must inform themselves as to:

- (a) the legal requirements of their own countries for the purchase, holding, transfer or other disposal of the Shares;
- (b) any foreign exchange restrictions applicable to the purchase, holding, transfer or other disposal of the Shares which they might encounter; and
- (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer or other disposal of the Shares.

Nothing contained in this document is intended to constitute investment, legal, tax, accounting or other professional advice. This document is for information only and nothing in this document is intended to endorse or recommend a particular course of action. Prospective investors must rely upon their own professional advisers, including their own legal advisers and accountants, as to legal, tax, investment or any other related matters concerning the Company and an investment therein. Statements made in this document are based on the law and practice currently in force in England and Wales and in Guernsey, and are subject to change.

### ***Note to certain Non-United Kingdom recipients***

This document is not for distribution into the United States or any other Restricted Jurisdiction. The issue of the Shares has not been, and will not be, registered under the applicable securities laws of the United States or any other Restricted Jurisdiction ("**Restricted Jurisdiction**" being each of Australia, Canada, Japan, the Republic of South Africa and the United States) and, subject to certain exceptions, the Shares may not be offered or sold directly or indirectly within the United States or any other Restricted Jurisdiction or to, or for the account or benefit of, any persons within the United States or within any other Restricted Jurisdiction.

The Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or any US state securities laws. The Shares may not be offered, sold, pledged or otherwise transferred, directly or indirectly, within the United States or to, or for the account or benefit of, US Persons (as defined in Regulation S under the Securities Act) unless the offer and sale of the Shares has been registered under the Securities Act and the Company is registered under the US Investment Company Act of 1940, as amended (the "**US Investment Company Act**") or an applicable exemption from the registration requirements of the Securities Act and the US Investment Company Act are available.

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 are subject to restrictions on transferability and resale within the United States and may not be transferred or resold in the United States except pursuant to a valid exemption from the

registration requirements of the Securities Act, the US Investment Company Act and state securities laws.

Subject to certain exceptions, this document does not constitute, or will constitute, or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for Shares to any Shareholder with a registered address in, or who is resident or located in, the United States and, if received, is for information purposes only. Shares are being offered and sold only outside the United States in reliance on Regulation S. Unless otherwise agreed with the Company, any person applying for Shares under the Placing Programme will be deemed to have declared, warranted and agreed, by accepting delivery of this document if and when received or delivery of Shares (i) he or she is not within the United States, (ii) he or she is not in any other Restricted Jurisdiction or any jurisdiction in which it is unlawful to make or accept an offer to acquire Shares, (iii) he or she is not acquiring any Shares for the account of any person who is located in the United States, unless (a) the instruction to purchase was received from a person outside the United States and (b) the person giving such instruction has confirmed that (x) it has the authority to give such instruction, and (y) either (A) has investment discretion over such account or (B) is an investment manager or investment company that, in the case of each of (A) and (B), is acquiring Shares in an “offshore transaction” within the meaning of Regulation S; and (iv) is not acquiring Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Shares into the United States or any other Restricted Jurisdiction.

The Articles contain provisions designed to restrict the holding of Shares by persons, including US persons, where in the opinion of the Directors such a holding could cause or be likely to cause the Company some legal implication. Shares held by ERISA Plan Investors are subject to provisions requiring a compulsory transfer as set out in the Articles.

***For the attention of prospective investors in the European Economic Area***

In relation to each member state of the EEA (each a “**Relevant State**”), no Shares have been offered or will be offered pursuant to the Placing Programme in that Relevant State prior to the publication of a prospectus in relation to the Shares which has been approved by the competent authority in that Relevant State or, where appropriate, approved in another Relevant State and notified to the competent authority in that Relevant State, all in accordance with the EU Prospectus Regulation, except that the Shares may be offered to the public in that Relevant State at any time:

- (a) to any legal entity which is a qualified investor as defined under Article 2 of the Prospectus Regulation;
- (b) to fewer than 150 natural or legal persons (other than “qualified investors” as defined under Article 2 of the EU Prospectus Regulation); or
- (c) in any other circumstances falling within Article 1(4) of the EU Prospectus Regulation,

provided that no such offer of the Shares shall require the Company to publish a prospectus pursuant to Article 3 of the EU Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the EU Prospectus Regulation.

For the purposes of this provision, the expression an “offer to the public” in relation to the Shares in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares to be offered so as to enable an investor to decide to purchase or subscribe for any Shares.

The Shares may only be offered in a Relevant State to the extent that the Shares may be marketed in the Relevant State pursuant to Article 42 of the EU AIFMD or can otherwise be lawfully marketed in that Relevant State in accordance with the EU AIFMD or under applicable implementing legislation (if any) of that Relevant State. Each person who initially acquires Shares, as applicable, or to whom any offer is made will be deemed to have represented, warranted and agreed to and with Numis, Liberum and the Company that it is a person to whom the Shares may lawfully be marketed under the EU AIFMD or under the applicable implementing legislation (if any) of that Relevant State.

***Finland***

This Prospectus shall not constitute an offer to the public in Finland. The Shares are offered in Finland solely to “professional clients” as defined in the Finnish Investment Services Act (747/2012,

as amended) and in compliance with the EU AIFMD and the Finnish Alternative Investment Fund Managers' Act (162/2014, as amended). This Prospectus has not been approved by the Finnish Financial Supervisory Authority and it does not constitute a key investor information document under the Finnish Alternative Investment Fund Managers' Act.

### ***Luxembourg***

This Prospectus does not constitute a public offer in the Grand Duchy of Luxembourg. The Luxembourg financial sector regulator (the Commission de Surveillance du Secteur Financier (CSSF)) has neither reviewed nor approved this document. The shares in the Company are not and may not be offered to the public in or from the Grand-Duchy of Luxembourg and they may not be offered outside the scope of the exemptions provided for by Article 5 § 2 of the law of 10 July 2005 on prospectuses for securities (the "Prospectus Law"). This document may only be addressed to qualified investors (within the meaning of the Prospectus Law) on the territory of the Grand-Duchy of Luxembourg in connection with such qualified investors' consideration of the purchase of shares in the Company. This offer has not been, and may not be announced to the public, and offering material may not be made available to the public. Shares in the Company may only be offered in or from the Grand-Duchy of Luxembourg to the extent the offering is made in compliance with the terms of article 45 of the Luxembourg law of 12 July 2013 on alternative investment funds managers (the "AIFM Law") or can otherwise be lawfully offered or sold (including on the basis of an unsolicited request from a professional investor within the meaning of the AIFM Law).

### ***Additional disclosures for Swedish professional investors***

The Company is an internally managed non-EU AIF incorporated and regulated in Guernsey by the Guernsey Financial Services Commission as a Registered Closed-ended Collective Investment Scheme pursuant to the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended. The Company is a feeder fund which, as at the date of this Prospectus, invests substantially in Master Fund II. The Company, as at the date of this Prospectus, pursues its investment objective and investment policy by investing directly in Master Fund II. The Company's investment objective and investment policy are set out in Part 1 of this Prospectus. The Company was incorporated in Guernsey on 7 March 2014 with registered number 58123. The principal legislation under which the Company operates and under which its securities have been created is the Companies Law (Guernsey) Law, 2008, as amended. The last date on which further Commitments by new investors (including Swedish investors) and increases in Commitments by existing investors (including Swedish investors) in Master Fund II may occur is 5 April 2021.

*A programme of activity containing information on the Company that will be marketed, including the domicile of the Company:*

The Company's investment objective and investment policy are set out in Part 1 of this document. The Company is contractually bound to comply with such objective and policy as stated therein. Any change will require shareholder consent by way of ordinary resolution passed at a general meeting and the consent of the relevant class of Shareholders. Details of any changes proposed will be notified to investors.

*The main legal implications of an investment in the Company:*

A final and conclusive judgement under which a sum of money is payable (not being a sum payable in respect of taxes or other charges of a like nature or in respect of a fine or penalty) obtained in the superior courts in the reciprocating countries set out in the Judgments (Reciprocal Enforcement) (Guernsey) Law 1957 (the "1957 Law") (which includes the Supreme Court and the Senior Courts of England and Wales, excluding the Crown Court), after a hearing on the merits would be recognised as a valid judgement by the Guernsey courts and would be enforceable in accordance with and subject to the provisions of the 1957 Law.

The Guernsey courts would also recognise, without reconsideration of the merits and assuming proper service of process and assumption of jurisdiction in accordance with the laws of the relevant jurisdiction, any final and conclusive judgement under which affixed or ascertainable sum of money is payable (not being a sum payable in respect of taxes or other charges or a like nature or in respect of a fine or other penalty) obtained in a court not recognised by the 1957 Law provided that the judgment was not obtained by fraud or in a manner opposed to the principles of natural justice and recognition of the judgment is not contrary to public policy as applied by the Guernsey courts.

*Liability insurance or additional own funds which are appropriate to cover any claim for damages:*

This requirement is not applicable to non-EU AIFMs marketing into Sweden under EU AIFMD Article 42.

*The prime broker of the Company and relevant material arrangements between such prime broker and the Company:*

A prime broker will not be appointed.

### **Regulation of the Company in Guernsey**

The Company is regulated in Guernsey by the Commission as a Registered Closed-ended Collective Investment Scheme registered pursuant to the POI Law and is required to comply with the RCIS Rules issued by the Commission. The Commission, in granting registration, has not reviewed this document but has relied upon specific warranties provided by the Administrator.

### **The Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law, 1999**

The Administrator and the Registrar have certain responsibilities under The Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law, 1999, as varied and supplemented from time to time, to verify the identity of investors. Failure to provide the necessary documentation may result in applications being rejected or in delays in the issue of Shares, the despatch of documents or the payment of distributions.

### **The Data Protection (Bailiwick of Guernsey) Law, 2017**

The Data Protection (Bailiwick of Guernsey) Law, 2017, (the “**DP Law**”) implements provisions equivalent to European requirements under The General Data Protection Regulation (EU) 2016/679 (“**GDPR**”) into Guernsey law. The information that a Shareholder provides and which relates to that prospective Shareholder (“**personal data**”) in relation to a subscription for Shares will be held and processed by the Company and/or its Registrar and/or the Administrator and/or the Custodian and/or MFII Custodian (and/or any third party service providers to whom the Company or those service providers may delegate certain administrative functions to in respect of the Company) in compliance with the DP Law and any other applicable regulatory requirements in Guernsey. Those entities may only process personal data in accordance with the DP Law and clearly identify and provide Shareholders with details as to the purposes for which their personal data will be handled and processed. This is set out in a privacy notice (“**Privacy Notice**”). The Privacy Notices of each of the entities (as applicable) as set out in this paragraph must be provided to and made available to Shareholders. The personal data will be processed by the Company and/or Registrar and/or the Administrator and/or the Custodian and/or MFII Custodian (and any third party to whom the Company or those service providers may delegate certain administrative functions to in respect of the Company) for such purposes as to maintain the Company’s Register of Shareholders, mailing lists, effecting the payment of dividends and other moneys to Shareholders and filing returns of Shareholders and their respective transactions in Shares with statutory bodies and regulatory authorities. Personal data may be retained on record for a period exceeding six years after it is no longer used. The Company’s Privacy Notice is available at: <https://www.fairoaksincome.com>.

### **Information to distributors**

Solely for the purposes of the product governance requirements contained within (a) the UK’s implementation of EU Directive 2014/65/EU on markets in financial instruments, as amended (“**UK MiFID II**”) and (b) the UK’s implementation of Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing UK MiFID II, and in particular Chapter 3 of the Product Intervention and Product Governance Sourcebook of the FCA (together, the “**MiFID II Product Governance Requirements**”), and disclaiming all and any liability whether arising in tort, contract or otherwise, which any “manufacturer” (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the C Shares and the 2021 Shares have been subject to a product approval process, which has determined that such securities to be issued pursuant to any Placing are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in the UK MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by the UK MiFID II (the “**Target Market Assessment**”).



Notwithstanding the Target Market Assessment, distributors should note that: (i) the price of the C Shares and the 2021 Shares may decline and investors could lose all or part of their investment; the C Shares and the 2021 Shares offer no guaranteed income and no capital protection; (ii) an investment in the C Shares or the 2021 Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom, and (iii) the C Shares and the 2021 Shares will be admitted to the Specialist Fund Segment, which is intended for institutional, professional, professionally advised and knowledgeable investors who understand, or who have been advised of, the potential risk from investing in companies admitted to the Specialist Fund Segment. The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to any Placing. Furthermore, it is noted that, notwithstanding the Target Market Assessment, Numis and Liberum will only procure investors who meet the criteria of professional clients and eligible counterparties.

For the avoidance of doubt, the Target Market Assessment does not constitute: (i) an assessment of suitability or appropriateness for the purposes of the UK MiFID II; or (ii) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Shares. Each distributor is responsible for undertaking its own Target Market Assessment in respect of the Shares and determining appropriate distribution channels.

### **Key information documents**

In accordance with the UK PRIIPs Regulation, a key information document is prepared in relation to the 2021 Shares, which is available on the Company's website: <https://www.fairoaksincome.com> and a key information document is prepared in relation to the Realisation Shares, which is available on the Company's website: <https://www.fairoaksincome.com>. If any tranche of C Shares is to be issued under the Placing Programme, a key information document in relation to such a tranche of C Shares will be prepared and made available on the Company's website: <https://www.fairoaksincome.com>.

It is the responsibility of each distributor of the Shares to ensure that its "retail clients" in the UK are provided with a copy of the key information document.

The Company is the manufacturer of the Shares for the purposes of the UK PRIIPs Regulation and neither Numis nor Liberum is a manufacturer for these purposes. Neither Numis nor Liberum makes any representation, express or implied, or accepts any responsibility whatsoever for the contents of the key information document prepared by the Company in relation to the Shares nor accepts any responsibility to update the contents of the key information document in accordance with the UK PRIIPs Regulation, to undertake any review processes in relation thereto or to provide such key information document to future distributors of Shares. Each of Numis, Liberum and their respective affiliates accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it or they might have in respect of the key information document prepared by the Company.

### **Non-mainstream pooled investments**

The Company has been advised that its shares may be considered as "excluded securities" for the purposes of the FCA Rules regarding the definition and promotion of non-mainstream pooled investments ("NMPI") because the returns to investors holding the Company's shares are, and are expected to continue to be, predominantly based on the returns from shares and debentures held indirectly by the Company. The Board believes that independent financial advisers can recommend the Company's shares to retail investors, although financial advisers should seek their own advice on this issue.

### **EU AIFMD**

The Company is categorised as an internally managed non-EEA AIF (as defined in the EU AIFMD) for the purposes of the EU AIFMD and as such neither it nor the Investment Adviser will be required to seek authorisation under the EU AIFMD.

The General Partner is the AIFM (as defined in the EU AIFMD) of each of Master Fund II and Master Fund III for the purposes of the EU AIFMD. Master Fund II and Master Fund III are both non-EEA AIFs (as defined in the EU AIFMD). As such, none of the General Partner, Master Fund II,



Master Fund III or the Investment Adviser will be required to seek authorisation under the EU AIFMD.

### **UK AIFMD**

The Company is categorised as an internally managed non-UK AIF (as defined in the UK AIFMD) for the purposes of the UK AIFMD and as such neither it nor the Investment Adviser will be required to seek authorisation under the UK AIFMD.

The General Partner is the AIFM (as defined in the UK AIFMD) of each of Master Fund II and Master Fund III for the purposes of the UK AIFMD. Master Fund II and Master Fund III are both non-UK AIFs (as defined in the UK AIFMD). As such, none of the General Partner, Master Fund II, Master Fund III or the Investment Adviser will be required to seek authorisation under the UK AIFMD.

The Company has notified the FCA under the national placement regime in accordance with the UK AIFMD and meets the relevant conditions required by the UK AIFMD. As a result, the Company may make a direct or indirect offering or placement of its shares to or with a “professional investor” domiciled or with a registered office in the UK and another person may make such an offering or placement at the initiative of, or on behalf of, the Company.

The General Partner (in respect of Master Fund II) has notified and (in respect of Master Fund III) may notify the FCA in the UK under the national placement regime in accordance with the UK AIFMD; it also meets the relevant conditions required by the UK AIFMD. As a result, the General Partner may make a direct or indirect offering or placement of limited partnership interests in Master Fund II and (should it make the relevant notification) in Master Fund III to or with a “professional investor” domiciled or with a registered office in the UK and another person may make such an offering or placement at the initiative of, or on behalf of, the General Partner.

### **Environmental and social policy**

The Company is a closed-ended investment company which has no employees therefore its own direct environmental impact is minimal. The Company operates by outsourcing significant parts of its operations to reputable professional companies, who are required to comply with all relevant laws and regulations and take account of social, environmental, ethical and human rights factors, where appropriate. The Board notes that the underlying entities which the CLOs are invested in will have a social and environmental impact over which it has no control. The Company has no direct greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions-producing sources, including those within its underlying CLOs portfolio.

### **Sustainability risk disclosures**

The Company has determined that it is not subject to Article 8(1), 9(1), 9(2) or 9(3) of the EU Regulation 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the “**EU Sustainable Finance Disclosure Regulation**”). Accordingly, the investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

#### *Article 6 disclosures:*

A sustainability risk is an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of an investment. The Investment Adviser integrates sustainability risks into its investment decisions in two ways. Firstly, its analysis of the managers of the CLOs in which the Company/Master Funds invest considers any sustainability risks at the manager level that could impact either the effective management of the CLO or the secondary market value of the CLO securities. Secondly, the Investment Adviser considers sustainability risks at the level of the borrowers of the loans in the CLOs’ portfolios. The realisation of sustainability risks at these borrowers could increase the probability of borrowers defaulting on loans held by the CLOs and a consequent erosion of the CLOs’ collateral pools.

The Investment Adviser has determined that sustainability risks, while relevant to the Company’s and Master Funds’ portfolio, present a very limited risk to the value of its investments. The manager-related sustainability risks are mitigated by the tight controls enforced on CLO managers by the CLO indenture and trustee, the manager replacement provisions in the indenture and the fact

that CLO investors are ultimately protected by their security over the CLO collateral. The sustainability risks related to the borrowers of loans in the CLO portfolios are mitigated by the diversification of the CLO portfolios and by the analysis undertaken on the loan borrowers by equity investors, lenders and rating agencies.

“Sustainability factors” are environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. Due to a current lack of detailed relevant information available from the borrowers of loans in CLO portfolios, the Investment Adviser does not consider the adverse impacts of investment decisions on sustainability factors. The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

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

In consideration of The Bribery Act 2010, enacted in the UK, the Board had conducted an assessment of the perceived risks to the Company arising from bribery and corruption to identify aspects of business which may be improved to mitigate such risks. The Board has adopted a zero tolerance policy towards bribery and has reiterated its commitment to carry out business fairly, honestly and openly.

### **Criminal Finances Act**

The Board of the Company has a zero tolerance commitment to preventing persons associated with it from engaging in criminal facilitation of tax evasion. The Board has satisfied itself in relation to its key service providers that they have reasonable provisions in place to prevent the criminal facilitation of tax evasion by their own associated persons and will not work with service providers who do not demonstrate the same zero tolerance commitment to preventing persons associated with it from engaging in criminal facilitation of tax evasion.

### **UK Modern Slavery Act**

The Board acknowledges the requirement to provide information about human rights in accordance with the UK Modern Slavery Act. The Board conducts the business of the Company ethically and with integrity, and has a zero tolerance policy towards modern slavery in all its forms. The Company has no employees and all its Directors are non-executive and all its functions are outsourced.

### **Employee engagement and business relationships**

The Company conducts its core activities through third-party service providers and does not have any employees. The Board recognises the benefits of encouraging strong business relationships with its key service providers and seeks to ensure each is committed to the performance of their respective duties to a high standard and, where practicable, that each provider is motivated to adding value within their sphere of activity.

### **Whistleblowing**

The Board has considered the AIC Code recommendations in respect of arrangements by which staff of the Investment Adviser, Custodian, MFIII Custodian or Administrator may, in confidence, raise concerns within their respective organisations about possible improprieties in matters of financial reporting or other matters. It has concluded that adequate arrangements are in place for the proportionate and independent investigation of such matters and, where necessary, for appropriate follow-up action to be taken within their organisation.

### **Currency presentation**

Unless otherwise indicated, all references in this document to “£”, “pence”, “p” or “GBP” are to the lawful currency of the UK, all references in this document to “Euro” or “€” are to the lawful currency of the EU and all references in this document to “US\$”, “US Dollar”, “cent”, “US cent” or “¢” are to the lawful currency of the United States.

### **Times and dates**

References to times and dates in this document are, unless otherwise stated, to London times and dates.

**Words denoting certain gender**

Throughout this document, words denoting any gender (e.g. “he”, “she”, “it”, “him”, “his”, “her” or “its”) shall include all genders (including without limitation masculine, feminine and/or neuter).

## EXPECTED TIMETABLE

Publication of this prospectus	26 March 2021
Latest time and date for receipt of proxy appointments	14 April 2021
EGM	16 April 2021
Publication of the results of the EGM	16 April 2021
Results of the Reorganisation Proposal announcing, <i>inter alia</i> , the number of 2017 Shares to be re-designated as 2021 Shares and the number of 2017 Shares to be re-designated as Realisation Shares	19 April 2021
Admission of the 2021 Shares re-designated pursuant to the Reorganisation Proposal	22 April 2021
Placing Programme opens	23 April 2021
Publication of Placing Price of any 2021 Shares to be issued in respect of a Placing (if applicable)	As soon as practicable following the closing of each Placing
Publication of results of each Placing	As soon as practicable following the closing of that Placing
Admission and crediting of CREST accounts in respect of Shares issued pursuant to each Placing (for holders in uncertificated form)	As soon as practicable on the day new Shares are issued pursuant to such Placing
Share certificates in respect of Shares issued pursuant to each Placing despatched (for holders in certificated form)	Approximately one week following the Admission of any new Shares issued pursuant to such Placing
Placing Programme closes and last date for new Shares to be issued pursuant to the Placing Programme	25 March 2022*

*\*or on such earlier date on which the authority to issue Shares pursuant to the Placing Programme is fully utilised, or an earlier date if agreed between the Company, Numis and Liberum.*

Notes:

1. The times and date(s) set out in the timetable above and below and mentioned in this document is subject to change by the Company (with the agreement of Numis and Liberum), in which event details of the new times and date(s) will be notified to the London Stock Exchange and, where appropriate, to Shareholders.

2. Any C Shares (of any tranche) to be issued pursuant to the Placing Programme will have a Placing Price of US\$1.

## PLACING PROGRAMME STATISTICS

Maximum size of the Placing Programme	20 per cent. of the 2021 Shares following implementation of the Reorganisation Proposal and/or 350 million C Shares <sup>1</sup>
Placing Price	<p><u>In respect of 2021 Shares:</u> Not less than the Net Asset Value per 2021 Share at the time of issue and a premium to cover the commissions and expenses of the issue of new Shares under the Placing Programme</p> <p><u>In respect of C Shares:</u> US\$1 per C Share</p>

## DEALING CODES

The dealing codes for the 2021 Shares are as follows:

2021 Share ISIN	GG00BNNLWT35
2021 Share SEDOL	BNNLWT3
2021 Share TIDM	FAIR

The codes (ISIN, SEDOL and TIDM) of any tranche of C Shares that may be issued under the Placing Programme is not known at the date of this Prospectus but will be announced through a Regulatory Information Service at the appropriate time.

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<sup>1</sup> Subject to issues of 2021 Shares and/or C Shares under the Placing Programme being capped at an aggregate issue value of US\$350 million.



## DIRECTORS AND ADVISERS

### In relation to Fair Oaks Income Limited (the Company):

<b>Directors</b>	Professor Claudio Albanese (Chairman) Jonathan Bridel Nigel Ward
<b>Registered Office and Business Address</b>	Sarnia House Le Truchot St Peter Port Guernsey GY1 1GR  <i>Website: <a href="https://www.fairoaksincome.com">https://www.fairoaksincome.com</a></i> <i>Telephone: 01481 737600</i>
<b>Administrator and Secretary</b>	Praxis Fund Services Limited Sarnia House Le Truchot St Peter Port Guernsey GY1 1GR
<b>Investment Adviser</b>	Fair Oaks Capital Limited 1 Albemarle Street London W1S 4HA
<b>Joint Bookrunners, Joint Brokers and Joint Financial Advisers</b>	Numis Securities Limited 10 Paternoster Square London EC4M 7LT  Liberum Capital Limited Ropemaker Place, Level 12 25 Ropemaker Street London EC2Y 9LY
<b>Auditors</b>	KPMG Channel Islands Limited Glategny Court Glategny Esplanade St Peter Port Guernsey GY1 1WR
<b>Reporting Accountants</b>	KPMG 1 Stokes Place St. Stephen's Green Dublin 2 D02 DE03 Ireland
<b>Registrar</b>	Link Market Services (Guernsey) Limited Mont Crevelt House Bulwer Avenue St Sampson Guernsey GY2 4LH
<b>Custodian and Principal Bankers</b>	BNP Paribas Securities Services S.C.A., Guernsey Branch BNP Paribas House St Julian's Avenue St Peter Port Guernsey GY1 1WA

**Legal Advisers to the Company**  
***As to English law***

Stephenson Harwood LLP  
1 Finsbury Circus  
London EC2M 7SH

***As to Guernsey law***

Carey Olsen (Guernsey) LLP  
Carey House  
Les Banques  
St Peter Port  
Guernsey GY1 4BZ

**English Legal Advisers to the Joint Bookrunners,  
Joint Brokers and Joint Financial Advisers**

Travers Smith LLP  
10 Snow Hill  
London EC1A 2AL

**In relation to FOIF II LP (Master Fund II):**

**Registered Office**

Sarnia House  
Le Truchot  
St Peter Port  
Guernsey GY1 1GR

*Telephone:* 01481 737600

**General Partner of Master Fund II**

Fair Oaks Income Fund (GP) Limited  
Sarnia House  
Le Truchot  
St Peter Port  
Guernsey GY1 1GR

**Directors of the General Partner of Master Fund II**

Miguel Arraya  
Chris Waldron  
Chris Hickling

**Investment Adviser**

Fair Oaks Capital Limited  
1 Albemarle Street  
London W1S 4HA

**Administrator and Secretary**

Praxis Fund Services Limited  
Sarnia House  
Le Truchot  
St Peter Port  
Guernsey GY1 1GR

**Legal Advisers to Master Fund II**  
***As to English law***

Paul Hastings (Europe) LLP  
100 Bishopsgate  
London EC2N 4AG  
United Kingdom

***As to Guernsey law***

Carey Olsen (Guernsey) LLP  
Carey House  
Les Banques  
St Peter Port  
Guernsey GY1 4BZ

**Custodian and Principal Bankers**

BNP Paribas Securities Services S.C.A.,  
Guernsey Branch  
BNP Paribas House  
St Julian's Avenue  
St Peter Port  
Guernsey GY1 1WA

<b>Auditors</b>	KPMG Channel Islands Limited Glategny Court Glategny Esplanade St Peter Port Guernsey GY1 1WR
<b><u>In relation to FOMC III LP (Master Fund III):</u></b>	
<b>Registered Office</b>	Sarnia House Le Truchot St Peter Port Guernsey GY1 1GR  <i>Telephone: 01481 737600</i>
<b>General Partner of Master Fund III</b>	Fair Oaks Income Fund (GP) Limited Sarnia House Le Truchot St Peter Port Guernsey GY1 1GR
<b>Directors of the General Partner of Master Fund III</b>	Miguel Arraya Chris Waldron Chris Hickling
<b>Investment Adviser</b>	Fair Oaks Capital Limited 1 Albemarle Street London W1S 4HA
<b>Administrator and Secretary</b>	Praxis Fund Services Limited Sarnia House Le Truchot St Peter Port Guernsey GY1 1GR
<b>Legal Advisers to Master Fund III</b> <i>As to English law</i>	Paul Hastings (Europe) LLP 100 Bishopsgate London EC2N 4AG United Kingdom
<i>As to Guernsey law</i>	Carey Olsen (Guernsey) LLP Carey House Les Banques St Peter Port Guernsey GY1 4BZ
<b>Custodian and Principal Bankers</b>	Elavon Financial Services Designated Activity Company (London Branch) 5 <sup>th</sup> Floor, 125 Old Broad Street London EC2N 1AR United Kingdom
<b>Auditors</b>	KPMG Channel Islands Limited Glategny Court Glategny Esplanade St Peter Port Guernsey GY1 1WR

## PART 1

### THE COMPANY

#### 1 The Company

The Company, Fair Oaks Income Limited, is a non-cellular company limited by shares incorporated in Guernsey under The Companies (Guernsey) Law, 2008, as amended (“**Companies Law**”) with registration number 58123. It was incorporated on 7 March 2014. It is registered with the Commission as a Registered Closed-ended Collective Investment Scheme. The registered office of the Company is Sarnia House, Le Truchot, St Peter Port, Guernsey, GY1 1GR. Its telephone number is 01481 737600 and its LEI is 2138008KETEC1WM5YP90. Its website is <https://www.fairoaksincome.com>.

The Company has appointed Fair Oaks Capital Limited as the Investment Adviser to provide investment advisory services to the Company. The Investment Adviser is authorised and regulated in the UK by the FCA with firm reference number 604090.

#### 2 Track record

As at 26 February 2021, the Company had unaudited net assets of US\$306 million (US\$0.6549 per 2017 Share) and a market capitalisation of approximately US\$295 million (US\$0.63 per 2017 Share) on 25 March 2021, representing a discount on the 2017 Shares of 3.95 per cent.

The total return on the 2017 Shares (with dividends reinvested) and some relevant indices to 26 February 2021 can be summarised as follows:

	6 months	1 year	3 years	5 years	Since inception	
					Cumulative	Annualised
NAV	+38.6%	-0.9%	-3.7%	+36.0%	+46.7%	+5.9%
2017 Share Price	+42.5%	+3.2%	-10.5%	+25.7%	+38.2%	+4.9%
CS Leveraged Loan Index	+6.5%	+6.1%	+14.2%	+29.3%	+32.7%	+4.3%
CS High Yield Index	+6.9%	+8.3%	+17.5%	+43.9%	+39.5%	+5.1%

Source: JPMorgan Domestic HY Summary Market Index Value and JPMorgan Leveraged Loan Index Summary Market Index Value.

#### 3 Reorganisation Proposal

##### a. Introduction:

At the EGM of the Company to be convened on 16 April 2021, resolutions will be proposed which, if passed, would result, *inter alia*, in the Articles being amended to cater for the reorganisation of the Company’s share capital. Shares in the current “2017 Share” class would as a result be re-designated into shares in one of two share classes:

- (i) the “2021 Share” class; and
- (ii) the “Realisation Share” class.

Under the Reorganisation Proposal, holders of 2017 Shares are asked to vote on the re-designation of 2017 Shares as 2021 Shares, except where and to the extent that a holder of 2017 Shares makes an express election by the prescribed deadline to have some or all of their 2017 Shares re-designated as Realisation Shares (in which case if the Reorganisation Proposal is successful, such 2017 Shares will be re-designated as Realisation Shares).<sup>2</sup>

The results of the Reorganisation Proposal will be published on 19 April 2021, which will set out (based on results of the EGM and the elections from existing Shareholders regarding the re-designation of 2017 Shares as Realisation Shares) the number of 2017 Shares to be re-designated as 2021 Shares and the number of 2017 Shares to be re-designated as Realisation Shares.

<sup>2</sup> There is an exception in respect of Excluded Shareholders, who will be prevented from having the opportunity to have their 2017 Shares re-designed as 2021 Shares or the opportunity to make an election to have their 2017 Shares re-designated as Realisation Shares. Instead, Excluded Shareholders will by default (and without needing to make an election) have their 2017 Shares re-designated as Realisation Shares, i.e. their 2017 Shares will continue to remain invested solely in Master Fund II and will **not** participate in Master Fund III.

The Reorganisation Proposal is conditional, *inter alia*, upon (i) the resolutions proposed at the EGM being passed and (ii) the admission of the re-designated 2021 Shares to trading on the SFS.

Additionally, even if the Reorganisation Proposal becomes unconditional and is implemented, the re-designation of existing 2017 Shares into Realisation Shares is, furthermore, conditional upon the aggregate Net Asset Value of the existing 2017 Shares elected for Realisation Shares (as at 31 March 2021) exceeding US\$30 million (equivalent to approximately 10 per cent. of the aggregate Net Asset Value of the Company, as at the Latest Practicable Date), and if this condition is not met, existing 2017 Shares elected for Realisation Shares will instead be re-designated into 2021 Shares upon the implementation of the Reorganisation Proposal.

**b. Purpose of the Reorganisation Proposal:**

The purpose of the proposed reorganisation is to allow those Shareholders who wish to extend the life of their investment in the Company beyond the planned end date of Master Fund II, to be able to do so by having their 2017 Shares re-designated as 2021 Shares, with such 2021 Shares investing in a new master fund, Master Fund III, which will have a planned end date of 12 June 2028 and an investment objective and policy substantially similar to that of Master Fund II.

As consideration for the Company receiving limited partnership interests in Master Fund III, the Company will transfer to Master Fund III such proportion of the Company's limited partnership interests in Master Fund II which are attributable to those 2017 Shares which are to be re-designated as 2021 Shares pursuant to the Reorganisation Proposal.

The mechanism for the above-mentioned transfer is set out in the Contribution Agreement. Please refer to paragraph 6 of Part 1 for further details on the Contribution Agreement.

As Master Fund III will likely hold limited partnership interests in Master Fund II, it is intended that repayment of principal received by Master Fund III with respect to Master Fund II's underlying investments during the remainder of its life may be used by Master Fund III to make new portfolio investments during its investment period.

Those Shareholders who do not wish to extend the life of their investment to participate in Master Fund III will need to make an express election to have their existing 2017 Shares re-designated as Realisation Shares, which will continue to participate solely in Master Fund II.

**c. Issue of C Shares and ring-fencing of assets attributable to Realisation Shares, 2021 Shares and C Shares:**

The net proceeds from the C Shares and/or 2021 Shares issued pursuant to the Placing Programme will only be invested in Master Fund III. (Further details on the Placing Programme are set out in Parts 4 and 6.) Such proceeds will be used to invest in Commitments in Master Fund III (with such commitments being drawn down by Master Fund III over time during its investment period concurrent with its completing new portfolio investments and with limited partnership interests in Master Fund III being issued to the Company as consideration for such drawdowns to be held by the Company as attributable to holders of C Shares and/or 2021 Shares, as applicable).

At the level of the Company, the assets representing the net proceeds of any tranche of C Share issue will be accounted for and managed as a separate pool of assets of the Company, distinct from the assets attributable to the 2021 Shares until their Conversion Date and distinct from the assets attributable to the Realisation Shares. Each tranche of C Shares will form a separate underlying pool of assets and liabilities from other tranches of C Shares. Both the 2021 Share class and C Share class pools (of whichever tranche) will however participate in Master Fund III limited partnership interests and therefore be exposed to the same (single) Master Fund III portfolio.

Further details on the C Shares are set out in paragraph 13 of this Part 1 and in paragraph 8.2.22 of Part 7.

Similarly, the assets attributable to the Realisation Shares will be accounted for and managed as a separate pool of assets of the Company, distinct from the assets attributable to the 2021 Shares and distinct from the assets attributable to the C Shares, and the assets attributable to the 2021 Shares will be accounted for and managed as a separate pool of assets of the Company, distinct from the assets attributable to the Realisation Shares and distinct from the assets attributable to the C Shares.



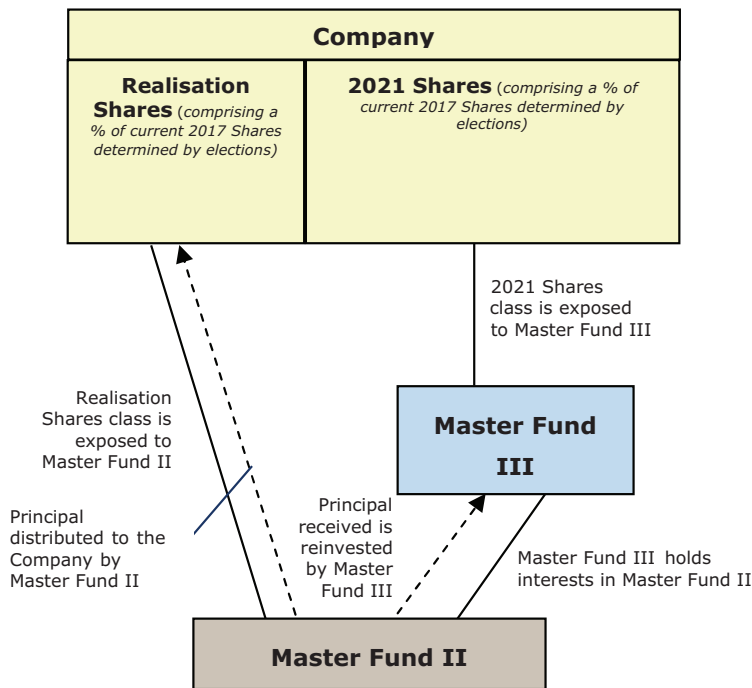
d. Duration of the Company:

The Company has been incorporated with an indefinite life, subject to continuation provisions enshrined in its Articles. Currently, under Article 46 of the Articles, the Company is required to convene an extraordinary general meeting in 2024 but on or before 12 June 2024 to propose to Shareholders a Continuation Resolution. If that Continuation Resolution is passed by Shareholders, a further Continuation Resolution will be proposed on the nearest Business Day falling every two years thereafter. If a Continuation Resolution is not passed, the Board shall draw up proposals for the voluntary liquidation of the Company.

As part of the Reorganisation Proposal, a resolution is sought at the EGM which, if passed, would amend the Articles so as to change the date by which the Continuation Resolution is to be proposed to 12 June 2028, being a date which aligns with the planned end date of Master Fund III, but excluding possible extension periods of Master Fund III either (i) through extending the time period during which further persons may be admitted as Limited Partners by up to two additional consecutive one year periods at the discretion of the General Partner; and/or (ii) by Master Fund III's term otherwise ending on a later date due to it continuing to hold any investment in a CLO issuer for which it has acted as originator for risk retention purposes).

e. Illustrative diagram of structure following the Reorganisation Proposal:

Assuming that (i) the resolutions proposed at the EGM are passed, (ii) a proportion of existing 2017 Shares are re-designated as 2021 Shares and (iii) the remaining 2017 Shares are re-designated as Realisation Shares, the diagram below serves as a high-level illustration of the structure of the Company following the Reorganisation Proposal:



Key:

Ownership of interests in respective Master Funds

Cash flow



#### **4 Admission of Shares to trading on the SFS**

Application will be made for those 2017 Shares to be re-designated as 2021 Shares to (i) be admitted to trading on the SFS (under a new ISIN GG00BNNLWT35 but retaining the current TIDM, "FAIR").

Subject to the Realisation Shares continuing to satisfy the relevant eligibility criteria for admission to trading on the SFS, the 2017 Shares to be re-designated as Realisation Shares will also remain traded on the SFS (under a the existing ISIN GG00BF00L342 and a new TIDM, "FA17").

#### **5 The Company's investment objective and policy**

The Company is a feeder fund and will pursue its investment objective and policy by investing (either directly and/or indirectly through Master Fund II and/or Master Fund III) in both Master Fund II and Master Fund III (with those assets of the Company attributable to the Realisation Shares investing in Master Fund II and with those assets of the Company attributable to the 2021 Shares and C Shares investing in Master Fund III), although it may also invest in Qualifying Short Term Investments if at any time the Company holds any uninvested cash. Consequently, the Company's investment objective mirrors those of the Master Funds.

In order to achieve an appropriate level of certainty for Shareholders, the investment objectives and policies of Master Fund II and Master Fund III have been entrenched in the MFII Partnership Agreement and the MFIII Partnership Agreement respectively and cannot be varied without an amendment to the respective agreements, which in each case would require the consent of the limited partners thereof holding commitments in aggregate which are equal to or exceed 75 per cent. of the total commitments therein.

##### ***Investment objective***

The investment objective of the Company is to generate attractive, risk-adjusted returns, principally through income distributions.

##### ***Targeted returns***

*In respect of the 2021 Shares:* On the basis of market conditions as at the date of this document, the Company will target a NAV total return of between 12 and 14 per cent. per annum over the planned life of Master Fund III.

This is a target only and not a profit forecast. There can be no assurance that this target will be met or that the Company will make any distributions at all. This target return should not be taken as an indication of the Company's expected or actual current or future results. The Company's actual return will depend upon a number of factors, including but not limited to the size of the size of the each Placing and the Company's total expense ratio. Potential investors should decide for themselves whether or not the return is reasonable and achievable in deciding whether to invest in the Company. Please refer to the section titled "Important Information".

*In respect of the Realisation Shares:* On the basis of market conditions as at the date of this document, the Company will continue to target a NAV total return of between 12 and 14 per cent. per annum over the planned life of Master Fund II.

This is a target only and not a profit forecast. There can be no assurance that this target will be met or that the Company will make any distributions at all. This target return should not be taken as an indication of the Company's expected or actual current or future results. The Company's actual return will depend upon a number of factors, including but not limited to the Company's total expense ratio. Potential investors should decide for themselves whether or not the return is reasonable and achievable in deciding whether to invest in the Company. Please refer to the section titled "Important Information".

##### ***Investment policy***

###### **General**

The investment policy of the Company is to invest (either directly and/or indirectly through Master Fund II and/or Master Fund III) in US, UK 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.

The Company implements its investment policy by:

- (i) with respect to those assets of the Company attributable to the Realisation Shares: investing in Master Fund II; and
- (ii) with respect to those assets of the Company attributable to the 2021 Shares and C Shares: investing in Master Fund III.

The Company will comply with the following investment restrictions:

- (i) Diversification: The Company will not make investments that would cause it to have exposure to a single borrower or issuer of a debt security (or guarantor thereof) ("**corporate issuer**") exceeding 5 per cent. of the Company's Aggregate Gross Assets at the time of investment. For the avoidance of doubt, special purpose vehicles such as issuers of CLOs will not be considered corporate issuers.
- (ii) Geographical limitations: The Company will not make investments that cause it to have exposure of more than 10 per cent. of the Aggregate Gross Assets at the time of investment to corporate issuers headquartered and operating principally outside the European Union, the United Kingdom, the United States and Canada. For the avoidance of doubt, special purpose vehicles such as issuers of CLOs will not be considered corporate issuers.
- (iii) Derivatives: The Company will not invest in publicly traded options, futures or financial derivatives except for efficient portfolio management purposes in connection with an Investment, proposed Investment or Investments generally.
- (iv) Non-corporate loans: The Company will not invest in mortgage backed securities or asset-backed securities, other asset-backed obligations backed by mortgages or other non-corporate loans; provided that the Company may invest in portfolios which may include corporate borrowers with substantial real estate holdings.

The Company will at all times invest and manage its assets with the objective of spreading investment risk and in accordance with its investment policy. It will not invest in other listed closed-ended investment funds. The Company must not conduct any trading activity which is significant in the context of its group as a whole.

The Company may also invest in Qualifying Short Term Investments at any time the Company holds any uninvested cash (as described in the paragraph below headed "cash management").

The commitment period of Master Fund II will end on 12 June 2021. Although the assets attributable to 2017 Shares to be re-designated as Realisation Shares pursuant to the Reorganisation Proposal will continue to be invested directly in Master Fund II immediately following the implementation of the Reorganisation Proposal, it is not possible for the Company or any other investor to make any further commitment to Master Fund II.

#### *Cash management*

If at any time the Company holds uninvested cash, the Company may also invest on a temporary basis in the following Qualifying Short Term Investments:

- Cash or cash equivalents;
- Government or public securities (as defined in the FCA Rules)
- Money market instruments;
- Bonds;
- Commercial paper; or
- Other debt obligations with banks or other counterparties having a "single A" rating or (if a fund) investing with no leverage with assets rated at least "single A", according to at least one internally recognised rating agency selected by the Board (which may or may not be registered in the EU).

The aggregate amount deposited or invested by the Company with any single bank or other non-government counterparty (including their associates) shall not exceed 20 per cent. of the Net Asset Value in aggregate, and also of the Net Asset Value of each Share class, at the time of investment.

### *Borrowings*

The Company will not have any borrowings except for short term borrowings for working capital and cash flow purposes. Such borrowings may not exceed 20 per cent. of Net Asset Value in aggregate, and also of the Net Asset Value of each Share class, at the time of drawdown of the relevant borrowing. If there is any short term borrowing, assets of the Company may be pledged as security against it.

### **Changes to the investment policy**

The Company cannot make any other investments without Shareholder consent to a change of investment policy by ordinary resolution at a general meeting of the Company and the consent of the relevant class of Shareholders to a change of its investment policy (please refer to paragraph 9 of Part 7 of this document).

### **Breach of investment policy**

If the Directors become aware of any breach of the Company's investment policy or any breach by the General Partner of the investment policy of Master Fund II under the terms of the MFII Partnership Agreement or of the investment policy of Master Fund III under the terms of the MFIII Partnership Agreement, which the Directors consider to be material, then Shareholders will be informed through the London Stock Exchange (via a Regulatory Information Service) and an extraordinary general meeting of the Company may be convened for the purposes of seeking ratification of such breach.

In accordance with the terms of the MFII Partnership Agreement, Master Fund II shall terminate if, amongst other things, the General Partner has been determined following a judgment by a court of law of competent jurisdiction to have committed a material breach of its obligations under the MFII Partnership Agreement and if such breach has been shown to have resulted in Master Fund II or any of the Limited Partners suffering a material financial disadvantage. Likewise, Master Fund III shall terminate if, amongst other things, the General Partner has been determined following a judgment by a court of law of competent jurisdiction to have committed a material breach of its obligations under the MFIII Partnership Agreement and if such breach has been shown to have resulted in Master Fund III or any of the Limited Partners suffering a material financial disadvantage. Failure to comply in any material respect with the investment policy as set out in the MFII Partnership Agreement (in the case of Master Fund II) and failure to comply in any material respect with the investment policy as set out in the MFIII Partnership Agreement (in the case of Master Fund III) would each constitute a material breach.

The MFII Partnership Agreement and the MFIII Partnership Agreement contain provisions enabling Master Fund II and Master Fund III, respectively, to be reconstituted, but this can only be done pursuant to a Majority Consent and requires that a new general partner be elected immediately.

## **6 Investment Portfolio**

The information set out below represents the portfolio of the Company as at the Latest Practicable Date. The information in this section, which has not been audited, has been sourced from information supplied by the Investment Adviser.

<i>Asset</i>	<i>Carrying Value (US\$) (valued as at 26 February 2021, being the Company's last valuation date)</i>		<i>% of portfolio</i>
Limited partnership interest in			
Master Fund II	305,271,334		99.7
Cash (after accrued expenses and prepayments)	1,020.867		0.3
Total			100

Source: Company's unaudited management accounts.

Details of Master Fund II's investment portfolio, to which the Company is exposed through its limited partnership interest, are set out in Part 2 of this document.

**Contribution Agreement:**

The Company has entered into the Contribution Agreement with Master Fund II (acting by the General Partner), Master Fund III (acting by the General Partner) and the General Partner.

Under the Contribution Agreement, upon the Effective Date, the Company will transfer to Master Fund III such portion of the Company's limited partnership interests in Master Fund II (as at the Effective Date) which are attributable to those 2017 Shares which are to be re-designated as Realisation Shares at the Effective Date pursuant to the Reorganisation Proposal (the "**Transferred Interest**"). In consideration for such transfer, the Company will receive limited partnership interests in Master Fund III which represent the Transferred Interest which Master Fund III receives from the Company.

The Contribution Agreement is conditional upon the admission of the Realisation Shares as re-designated from 2017 Shares pursuant to the Reorganisation Proposal to trading on the SFS.

## **7 Board**

The Board is responsible for the determination of the Company's published investment policy as specified in this document (subject to changes being approved by Shareholders as specified above) and has overall responsibility for its activities and compliance with MAR and the Disclosure Guidance and Transparency Rules. The Directors, all of whom are non-executive, are as follows:

**Professor Claudio Albanese, independent non-executive chairman and chairman of the Management Engagement Committee**

Claudio is the Head of Analytics at IMEX Synchronised Risk and Honorary Professor of Finance at CASS School of Business, London (since Autumn 2008). He received a PhD in Theoretical Physics from ETH Zurich in 1988. He has held faculty positions at numerous academic institutions including ETH Zurich, UCLA, the Courant Institute at NYU, and Princeton University. In 1994 he joined the University of Toronto as Associate Professor of Mathematical Physics and in that year he redirected his career towards Mathematical Finance. In 1998 he spent one year at Morgan Stanley at the credit derivatives trading desk. In 2004 he joined Imperial College London as Professor of Mathematical Finance. Claudio consults for several banks, financial service organisations and hardware manufacturers, speaks at numerous conferences and has published over 50 articles in academic and professional journals. Claudio funded Global Valuation Limited, a software firm dedicated to the simulation of banks' OTC portfolios and XVA metrics. Claudio was non-executive director at Carador Income Fund Plc from 2006 to 2013. Claudio is a UK resident.

**Jonathan (Jon) Bridel, independent non-executive director and chairman of the Audit Committee**

Jon is currently a non-executive chairman or director of various listed and unlisted investment funds and private equity investment managers. Listings include the premium segment of the Official List and the Specialist Fund Segment. He was until 2011 Managing Director of Royal Bank of Canada's investment businesses in Guernsey and Jersey. This role had a strong focus on corporate governance, oversight, regulatory and technical matters and risk management. After qualifying as a Chartered Accountant in 1987, Jon worked with Price Waterhouse Corporate Finance in London and subsequently served in a number of senior management positions in Australia and Guernsey in corporate and offshore banking and specialised in credit. He was also chief financial officer of two private multi-national businesses, one of which raised private equity. He holds qualifications from the Institute of Chartered Accountants in England and Wales where he is a Fellow, the Chartered Institute of Marketing and the Australian Institute of Company Directors. He graduated with an MBA from Durham University in 1988. Jon is a chartered marketer and a member of the Chartered Institute of Marketing, a chartered director and fellow of the Institute of Directors and is a chartered fellow of the Chartered Institute for Securities and Investment. Jon is a Guernsey resident.



**Nigel Ward, independent non-executive director and chairman of the Risk Committee and chairman of the Nomination and Remuneration Committee.**

Nigel is an Institute of Directors ("IoD") qualified self-employed management consultant and non-executive director. He has over 40 years' experience in international investment markets, credit and risk analysis, portfolio management, corporate and retail banking, corporate governance, compliance and the managed funds industry. He is an independent non-executive chairman or director on the board of several offshore funds and companies covering a broad range of asset classes. These appointments include listings on the premium segment of the Official List of the FCA and the Specialist Fund Segment Market. Nigel was a founding Commissioner of the Guernsey Police Complaints Commission, and is an Associate of the Institute of Financial Services, a member of the Institute of Directors and the Guernsey Investment Funds Association and holder of the IoD Diploma in Company Direction. He is a Guernsey resident.

The address of the Directors is the registered office address of the Company.

**Corporate governance**

The Board currently comprises three independent non-executive directors, Professor Claudio Albanese, Jonathan Bridel and Nigel Ward, all of whom have been on the Board since the Company's admission to trading to SFS in 2014. The Board intends during the course of the Company's current financial year to announce and commence implementation of a succession plan to refresh the Board composition over time and to introduce a greater degree of diversity.

**8 Investment Adviser and the Investment Advisory Agreement**

The Company has appointed Fair Oaks Capital Limited as the Investment Adviser to provide investment advisory services, which include, *inter alia*, analysing the progress of all assets and investments of the Company and advising the Company on liquidity and working capital retention issues.

The Investment Adviser a private limited company incorporated in England and Wales on 19 October 2012 with registration number 08260598 and is authorised and regulated in the UK by the FCA with firm reference number 604090. Its registered office address is 1 Albemarle Street, London W1S 4HA. Its telephone number is +44 (0) 20 3034 0400 and its LEI is 213800T46SWNIFLIZW28. Its website is <https://fairoakscap.com>.

Under the terms of the Investment Advisory Agreement, Fair Oaks Capital Limited provides investment advisory services to the Company for an annual fee equal to:

- (i) 1.00 per cent. per annum of the Net Asset Value of the Company plus any applicable VAT. The fee is payable on the last Business Day of each month or on the date of termination of the Investment Advisory Agreement; minus
- (ii) the net MFII Management Fee suffered by the Company in respect of its investment in Master Fund II (taking into account any rebates of such MFII Management Fee to the Company) in respect of the same relevant period as described in (i) above; minus
- (iii) the net MFIII Management Fee suffered by the Company in respect of its investment in Master Fund III (taking into account any rebates of such MFIII Management Fee to the Company) in respect of the same relevant period as described in (i) above.

The Company shall also reimburse the Investment Adviser for all of its reasonable out-of-pocket expenses properly incurred in the proper performance of its duties under the agreement. In addition, in respect of any reasonable costs and out-of-pocket expenses properly incurred by the Investment Adviser in connection with its transaction reporting obligations, the Company shall reimburse the Investment Adviser a portion of the above-mentioned costs and expenses, with such portion representing that which is directly attributable to or relates to transactions of the Company.

In circumstances where, as at the date the Net Asset Value per share of the 2021 Shares with respect to the last calendar month of a calendar quarter (the "**Quarter End 2021 NAV**") is published, the price of the 2021 Shares, adjusted for any dividends declared if required, traded at close in the secondary market below their then-prevailing Quarter End 2021 NAV, the Investment Adviser agrees to reinvest and/or procure the reinvestment by an Associate of it of (a) 25 per cent. of the fees which it shall receive with respect to that quarter from the Company pursuant to the

agreement which is attributable to the Net Asset Value of the 2021 Shares and (b) 25 per cent. of the management fee which the General Partner shall receive with respect to that quarter from Master Fund II and Master Fund III which is attributable to the Net Asset Value of the 2021 Shares by, in each case, using its best endeavours to purchase or procure the purchase of 2021 Shares in the Company in the secondary market. The obligation to purchase or procure the purchase of such 2021 Shares shall be fulfilled by the Investment Adviser by no later than one month after the end of such calendar quarter. The Investment Adviser will have no obligation to reinvest and/or procure the reinvestment of fees it receives with respect to a calendar quarter in circumstances where: (i) the 2021 Shares did not trade at close in the secondary market at a discount to their then-prevailing Quarter End 2021 NAV; or (ii) where the 2021 Shares did trade at close in the secondary market at a discount to their then-prevailing Quarter End 2021 NAV and it is unable to purchase or procure the purchase of 2021 Shares in the secondary market at a discount to their then-prevailing Quarter End 2021 NAV despite having used its best endeavours to do so; or (iii) the MFIII Commitment Period has already expired, and, in each case, the Investment Adviser shall retain all fees it receives for such quarter.

In circumstances where, as at the date of the Net Asset Value per share of the Realisation Shares with respect to the last calendar month of a calendar quarter (the “**Quarter End Realisation NAV**”) is published, the price of the Realisation Shares, adjusted for any dividends declared if required, traded at close in the secondary market below their then-prevailing Quarter End Realisation NAV, the Investment Adviser agrees to reinvest and/or procure the reinvestment by an Associate of it of (a) 25 per cent. of the fees which is received with respect to that quarter from the Company pursuant to the agreement which is attributable to the Net Asset Value of the Realisation Shares and (b) 25 per cent. of the MFII Management Fee which the General Partner shall receive in respect to that quarter from Master Fund II which is attributable to the Net Asset Value of the Realisation Shares by, in each case, using its best endeavours to purchase or procure the purchase of Realisation Shares in the secondary market. The obligation to purchase or procure the purchase of Realisation Shares shall be fulfilled by the Investment Adviser by no later than one month after the end of such calendar quarter. The Investment Adviser will have no obligation to reinvest and/or procure the reinvestment of fees it receives with respect to a calendar quarter in circumstances where either: (i) the Realisation Shares did not trade at close in the secondary market at a discount to their then-prevailing Quarter End Realisation NAV; or (ii) where the Realisation Shares did trade at close in the secondary market at a discount to their then-prevailing Quarter End Realisation NAV and it is unable to purchase or procure the purchase of Realisation Shares in the secondary market at a discount to their then-prevailing Quarter End Realisation NAV despite having used its best endeavours to do so and, in either case, the Investment Adviser shall retain all fees it receives for such quarter.

## **9 Dividend and distributions policy**

As noted in paragraph 3 of this Part 1, the assets attributable to each individual class of Shares will be accounted for and managed as a separate pool of assets and distinct from the assets attributable to the other classes of Shares. Therefore, any dividends payable to the holders of the Realisation Shares, 2021 Shares and any class or tranche of C Shares will represent an amount received by the Company from investments held by the Company and which are attributable to each respective share class’ interest in the relevant master fund only.

### Realisation Shares:

The Company intends to pay quarterly dividends to holders of Realisation Shares representing an amount in aggregate at least equal to the gross income from investments received by the Company in the relevant financial period attributable to the Realisation Shares’ interest in Master Fund II and Qualifying Short Term Investments, less expenses of the Company.

### 2021 Shares:

The Board intends to pay quarterly dividends to holders of 2021 Shares representing an amount in aggregate at least equal to the gross income received by the Company from investments in the relevant financial year that are attributable to the 2021 Shares’ interest in Master Fund III and qualifying short term investments, less a proportionate share of the expenses of the Company.

### C Shares:

The Board intends to pay a single dividend, immediately prior to the conversion to 2021 Shares, to holders of the relevant tranche of C Shares representing an amount in aggregate at least equal to the gross income received by the Company from investments that are attributable to that relevant tranche of C Shares' interest in Master Fund III and qualifying short term investments, less a proportionate share of the expenses of the Company.

Factors expected to affect Master Fund II's net income from Investments are set out in Part 2. Factors expected to affect Master Fund III's net income from Investments are set out in Part 3.

Dividends will only be paid subject to the Company satisfying the solvency test prescribed under the Companies Law.

### Other distributions:

For repayments of principal by the underlying instruments of Master Fund II and Master Fund III received by the Company:

### In respect of the 2021 Shares:

It is intended that all future repayment of principal received by Master Fund III with respect to Master Fund II's underlying investments during the remainder of its life will be used by Master Fund III during its investment period to make new portfolio investments.

Subsequent to the end of Master Fund III's investment period, it is intended that all future repayments of principal by the underlying instruments of Master Fund II and Master Fund III which are received by the Company after the end of Master Fund III's Commitment Period be distributed to holders of 2021 Shares through the redeeming of 2021 Shares on a *pro-rata* basis.

### In respect of the Realisation Shares:

It is intended that all future repayment of principal received by the Company with respect to Master Fund II's underlying investments during the remainder of its life will be used by the Company to make ad hoc returns of capital by way of a compulsory partial redemption of Realisation Shares.

Dividends paid to Shareholders for the period from 1 January 2017 to the Latest Practicable Date are as follows:

Dividends paid in respect of the financial year ended 31 December 2017	13.45 US cents per 2017 Share
Dividends paid in respect of the financial year ended 31 December 2018	13.45 US cents per 2017 Share
Dividends paid in respect of the financial year ended 31 December 2019	11.15 US cents per 2017 Share
Dividends paid in respect of the six-month period from 1 January 2020 to 30 June 2020	2.10 US cents per 2017 Share
Dividends paid since 30 June 2020 up until the Latest Practicable Date	6.20 US cents per 2017 Share

## **10 Further issues of Shares**

Under the Articles, further issues of Shares, of whatever class, for cash are subject to pre-emption rights conferred on existing Shareholders, save to the extent these rights have been dis-applied by an extraordinary resolution of the Company.

At the EGM a resolution will be proposed to seek authority for the Directors to issue the following for cash:

- (i) up to 350 million C Shares under the Placing Programme; and
- (ii) up to such number of 2021 Shares under the Placing Programme as represents 20 per cent. of the 2021 Shares then in issue following the Effective Date,

each on a non-pre-emptive basis, subject to any issues of 2021 Shares and/or C Shares under the Placing Programme being capped at an aggregate issue value of US\$350 million, and that such power shall expire on the earlier of the annual general meeting of 2022 or on the expiry of 15 months from the passing of the resolution except that the Company may before such expiry

make offers or agreements which would or might require C Shares and/or 2021 Shares or rights to subscribe for such shares in the Company to be issued after such expiry and notwithstanding such expiry the Directors may issue C Shares and/or 2021 Shares or rights to subscribe for such shares in the Company in pursuance of such offers or agreements as if the power conferred by the resolution had not expired. Results of the EGM will be published on 16 April 2021.

The proceeds from any further issues of Shares will be used in accordance with the Company's investment objective and policy as described in this document, which can only be materially changed with the approval of Shareholders and the consent of any relevant class of Shareholders.

## **11 Dilution**

### *Dilution of voting control*

If 350 million Shares were issued pursuant to the Placing Programme, there would be a dilution of approximately 45 per cent. in existing Shareholders' voting control of the Company. Further, on a conversion of any tranche of C Shares, any dilution (in terms of voting control of the Company) resulting from the issue of such tranche of C Shares may increase or decrease depending on the conversion ratio used for such conversion.

### *Dilution to net asset value*

As no 2021 Shares will be issued under the Placing Programme at a price which is less than the aggregate of the Net Asset Value per 2021 Share and a premium to cover the commissions and expenses of the issue of new 2021 Shares under the Placing Programme, there will be no dilution in the Net Asset Value per 2021 Share as a result of the issue of any 2021 Shares under the Placing Programme.

The basis on which a tranche of C Shares would convert into New 2021 Shares is such that the number of New 2021 Shares to which holders of C Shares of that tranche would become entitled will reflect the relative net asset values per share of the assets attributable to that relevant tranche of C Shares and the 2021 Shares. As a result, the Net Asset Value per 2021 Share can be expected to be unchanged by the issue and conversion of any C Shares.

The Net Asset Value of the existing 2021 Shares (and C Shares of any existing tranche(s), if any are in existence at the relevant time) would not be diluted by the expenses of an issue of (a further tranche of) C Shares, which would be borne by holders of such tranche of C Shares only.

## **12 Discount management**

In the event that the 2021 Shares or Realisation Shares trade at a substantial discount to their then prevailing Net Asset Value for an extended period of time, the Board will consider whether there are appropriate methods of reducing such discount available to the Company. Such methods may include implementing a share buyback programme.

To the extent only that the Company has received distributions from Master Fund II, the Board will give consideration to repurchases of Realisation Shares in the event that the Realisation Shares are trading at prices representing a discount to the Net Asset Value per Realisation Share of 5 per cent. or more.

The Company is not expected to have material cash to finance a buyback programme buying back any 2021 Shares until Master Fund III has distributed sufficient investment proceeds to the Company, at which point the Board will give consideration to repurchases of 2021 Shares in the event that the 2021 Shares are trading at prices representing a discount to the Net Asset Value per 2021 Share of 5 per cent. or more.

In deciding whether to make any such purchases the Directors will have regard to what they believe to be the best interests of Shareholders, to the applicable Guernsey legal requirements which require the Directors to be satisfied on reasonable grounds that the Company will, immediately after any such repurchase, satisfy the solvency test prescribed by the Companies Law and any other requirements in its memorandum and Articles.

The Board obtained authority to repurchase 2017 Shares representing 14.99 per cent. of the 2017 Shares in issue immediately following the annual general meeting of the Company held on 11 June 2020. Whilst the authority was obtained prior to the proposed splitting of the existing 2017 Share class into ordinary shares designated as "2021 Shares" and ordinary shares designated

as “Realisation Shares” pursuant to the Reorganisation Proposal, the authority will still be valid (in relation to the 2021 Shares and Realisation Shares). However, the Directors do not currently have any intention to exercise such general authority.

It is expected that at each annual general meeting of the Company, general authority to buy back 14.99 per cent. of each Share class in issue (other than C Shares) will be sought.

The making and timing of any buybacks will be at the absolute discretion of the Board and not at the option of the Shareholders.

The Board does not intend to conduct buybacks of any C Shares prior to their conversion.

### **13 C Shares**

The assets representing the net proceeds of any tranche of C Share issue will be accounted for and managed as a separate pool of assets of the Company, distinct from the assets attributable to the 2021 Shares until their Conversion Date and distinct from the assets attributable to the Realisation Shares. Each tranche of C Shares will form a separate underlying pool of assets and liabilities from other tranches of C Shares. Each tranche of C Shares will have the same rights and characteristics as any other tranches of C Shares.

The basis on which a tranche of C Shares would convert into New 2021 Shares is such that the number of New 2021 Shares to which holders of C Shares of that tranche would become entitled will reflect the relative net asset values per share of the assets attributable to that relevant tranche of C Shares and the 2021 Shares. As a result, the Net Asset Value per 2021 Share can be expected to be unchanged by the issue and conversion of any C Shares. The Net Asset Value of the existing 2021 Shares would not be diluted by the expenses of any C Share issue, which would be borne by the relevant C Share pool.

The Articles contain the C Share rights, full details of which are set out in paragraph 8.2.22 of Part 7 of this document.

The codes (ISIN, SEDOL and TIDM) of any tranche of C Shares that may be issued under the Placing Programme is not known at the date of this Prospectus but will be announced through a Regulatory Information Service at the appropriate time.

The initial NAV per C Share following the admission of any tranche of C Shares will be announced by the Company through a Regulatory Information Service.

As mentioned in paragraph 10 of this Part 1 above, at the EGM a resolution will be proposed to seek authority for the Directors to issue for cash up to 350 million C Shares in total under the Placing Programme. However, the number of Shares available under the Placing Programme is intended to be flexible and should not be taken as an indication of the number of Shares that will be issued. Shares will be issued pursuant to the Placing Programme when the Directors consider that it is in the best interests of Shareholders to do so and when opportunities have been identified for further investment and to address continuing demand for the Shares.

It is intended that the net proceeds of any C Share issue will be committed to Master Fund III, with such commitment being drawn down by Master Fund III over time concurrent with its completing new portfolio investments and with limited partnership interests in Master Fund III being issued to the Company as consideration for such drawdowns to be held by the Company as attributable to holders of C Shares). C Shareholders’ exposure is therefore expected over time to move out of cash into a growing interest in Master Fund III. This interest and all uncommitted cash will continue to be held as a separate pool of assets of the Company (distinct from the assets attributable to the 2021 Shares issued and distinct from the assets attributable to the Realisation Shares) underlying the C Shares of a particular tranche, until this pool is substantially invested in Master Fund III.

The issue of C Shares would therefore permit the Board to raise further capital for the Company in circumstances where the issue of further 2021 Shares would have the potential to exert “cash drag” on the performance of the 2021 Shares already in issue pending the deployment of such issue proceeds.

The Articles contain provisions which permit the Board, subject to the Companies Law, to issue one or more tranches of C Shares from time to time. However, the Company will issue only up to a maximum of four tranches of C Shares pursuant the Placing Programme. Placings of C Shares will have security identification numbers issued in consecutive order, namely tranche 1 to 4 (such that



the first tranche of C Shares to be issued under the Placing Programme will be identified as “C1 Shares”, the second tranche as “C2 Shares” and so on). The announcement of each issue of C Shares will contain details of the relevant security identification number for the tranche of C Shares being issued. The Company may, at its discretion, issue additional tranches of C Shares prior to the Conversion of any previously issued tranches of C Shares.

As set out above, at the EGM a resolution will be proposed to seek authority for the Directors to issue for cash up to 350 million C Shares in total under the Placing Programme (subject to any issues of 2021 Shares and/or C Shares under the Placing Programme being capped at an aggregate issue value of US\$350 million). The result of this is that each Placing of C Shares may be for up to 350 million C Shares, less any number of Shares (whether C Shares or 2021 Shares) already issued pursuant to a *previous* Placing under the Placing Programme, such that, if 100 million “C1 Shares” were issued pursuant to the first Placing of C Shares under the Placing Programme (and assuming no 2021 Shares were previously issued under the Placing Programme), the maximum number of “C2 Shares” that could be issued pursuant to a subsequent Placing of C Shares under the Placing Programme would be 250 million. Save for this cap, there are no fixed or target numbers of C Shares that can be issued pursuant to a Placing under the Placing Programme.

#### **14 Administrator and Registrar**

The Company has appointed Praxis Fund Services Limited to act as its administrator pursuant to a fund administration services agreement entered into between it and the Administrator. The Administrator is a non-cellular company limited by shares incorporated in Guernsey on 13 April 2005 with registration number 43046 and licensed by the Commission, on 10 May 2005. Its registered office is at Sarnia House, Le Truchot, St Peter Port, Guernsey GY1 1GR and the telephone number for its registered office is 01481 737600. As at 31 January 2021, Financial Services Opportunities Investment Fund Limited indirectly holds 16.1 per cent. of the issued share capital of PraxisIFM Group Limited (Praxis Fund Services Limited being wholly-owned by PraxisIFM Group Limited). The Administrator has been appointed as the Nominated Firm (such term as defined in the Commission’s Handbook on Countering Financial Crime and Terrorist Financing).

The Administrator undertakes the day to day administration of the Company. The Administrator is also responsible for the Company’s administrative functions such as the calculation and publication of the Net Asset Value and maintenance of the Company’s accounting and statutory records. Company secretarial functions are undertaken by the Administrator.

The Company has appointed Link Market Services (Guernsey) Limited (formerly called “Capita Registrars (Guernsey) Limited”) to act as the Company’s registrar. The Registrar is a non-cellular company limited by shares incorporated in Guernsey on 27 February 2001 with registration number 38018 and licensed by the Commission. Its registered office is at Mont Crevelt House, Bulwer Avenue, St Sampson, Guernsey GY2 4LH. Its telephone number is 0371 664 0321. As the Registrar, Link Market Services (Guernsey) Limited is responsible for providing registration services to the Company and maintaining the necessary books and records (such as the Company’s register of Shareholders).

#### **15 Commission**

The Company is regulated in Guernsey by the Commission as a Registered Closed-ended Collective Investment Scheme pursuant to the POI Law and is required to comply with the RCIS Rules issued by the Commission. The Commission, in granting registration, has not reviewed this document but has relied upon specific warranties provided by the Administrator.

The Commission takes no responsibility for the financial soundness of the Company or for the correctness of any of the statements made or opinions expressed with regard to it.

#### **16 Company Net Asset Value calculations**

The unaudited Net Asset Value per Share is calculated as at the close of business on the last Business Day of every month by the Administrator and the Company aims to announce such Net Asset Value per Share through a Regulatory Information Service no later than 10 Business Days following each NAV calculation date. In the event if there is more than one tranche of C Shares in

issue, the Net Asset Value in respect of each tranche of C Shares in issue will be separately calculated.

Master Fund II NAV and Master Fund III NAV are used as bases for calculating the Company's Net Asset Value (with suitable adjustments for cash and any Qualifying Short Term Investments held). The Board will review, consider and, if thought appropriate, adopt for the purposes of the Company's financial statements valuations prepared by the Administrator in respect of the Investments. For information on the valuation of Master Fund II, Master Fund III and the timing of release of Master Fund II NAV and Master Fund III NAV, please see Part 2 and Part 3 of this document respectively.

The calculation of the Net Asset Value per Share will only be suspended in circumstances where the underlying data necessary to value the Company's investment in Master Fund II or Master Fund III cannot readily, or without undue expenditure, be obtained. Details of any suspension in making such calculations will be announced through a Regulatory Information Service as soon as practicable.

## **17 Corporate governance**

The Company is subject to the GFSC Code which applies to all companies that hold a licence from the Commission under certain regulatory laws or which are registered or authorised as collective investment schemes. The Commission requires an assurance statement from the Company confirming that the Directors have considered the effectiveness of their corporate governance practices and are satisfied with their degree of compliance with the principles set out in the GFSC Code, or the alternative codes accepted by the Commission, in the context of the nature, scale and complexity of the business. Companies reporting in compliance with the UK Corporate Governance Code or the AIC Code are deemed to satisfy the provisions of the Guernsey Code. The UK Corporate Governance Code is available on the Financial Reporting Council website, [www.frc.org.uk](http://www.frc.org.uk). The AIC is available on the AIC website at [www.theaic.co.uk](http://www.theaic.co.uk).

The Board is committed to high standards of corporate governance and is accountable to Shareholders for good corporate governance. The Board considers that reporting against the principles and provisions of the AIC Code, which has been endorsed by the Financial Reporting Council, provides more relevant information to Shareholders. As at the date of this document, the Company complies with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except in relation to the appointment of a senior independent director, the appointment of executive directors and the need for an internal audit function.

The UK Corporate Governance Code includes provisions relating to the role of the chief executive, the appointment of a senior independent director, executive directors' remuneration and the need for a separate remuneration committee.

Given the size and composition of the Board it is not felt necessary to separate the roles of chairman and senior independent director. The Board considers that all the independent Directors have different qualities and areas of expertise on which they may lead where issues arise and to whom concerns can be conveyed. Due to the broad range of experience of the Board and given the nature of the Company's activity and that the majority of Directors are deemed to be independent under the AIC Code, it is not considered necessary to appoint executive Directors. The Board has reviewed the need for an internal audit function and due to the size of the Company and the delegation of day-to-day operations and has no employees, the Board has determined that an internal audit function is not considered necessary. The Board will review annually whether a function equivalent to an internal audit is needed and it intends to monitor its systems of internal controls in order to provide assurance that they operate as intended.

### *Board independence, composition and tenure*

The Board, chaired by Professor Claudio Albanese who is responsible for its leadership and for ensuring its effectiveness in all aspects of its role, currently consists of three non-executive Directors. The Board meets at least four times a year and receives full information about the Company's investment performance, assets, liabilities and other relevant information in advance of board meetings. The Directors' biographical details, set out in this Part 1, demonstrate a breadth of commercial, investment and professional experience. The Directors are all independent of Fair Oaks Capital and their independence is reviewed by the Board at least annually.

Under the terms of their appointment, all non-executive Directors are subject to re-election annually at the annual general meeting of the Company. At the annual general meeting of the Company on 11 June 2020, shareholders re-elected all the Directors of the Company.

Although no formal training is given to Directors by the Company, the Directors are kept up to date on various matters such as corporate governance issues through bulletins and training materials provided from time to time by the Company Secretary, the AIC and other professional firms.

The Chairman regularly reviews the training and development needs of each Director. Directors' appointments are reviewed formally every three years by the Board. Any Director may resign in writing to the Board at any time.

The Board receives quarterly reports and meets at least quarterly to review the overall business of the Company and to consider matters specifically reserved for its disposal. At these meetings the Board monitors the investment performance of the Company. The Directors also review the Company's activities every quarter to ensure that it adheres to the Company's investment policy. Additional *ad hoc* reports are received as required and Directors have access at all times to the advice and services of the Company Secretary, who is responsible for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with. The Board monitors the level of the share price premium or discount to determine what action is desirable (if any).

#### *Audit Committee*

The Audit Committee, chaired by Jonathan Bridel, meets at least three times per year. The Audit Committee shall comprise at least two members. The Committee is responsible for monitoring the integrity of the financial statements of the Company, including its annual and half-yearly reports, and any other formal announcement relating to its financial performance, reviewing, challenging (where necessary) and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor, and how they were addressed. The Audit Committee is also responsible for reviewing the nature and scope of the external audit and the findings therefrom, and the terms of appointment of the auditors, including their remuneration and the provision of any non-audit services by them.

The Audit Committee meets representatives of the Administrator and the Investment Adviser and their compliance officers who report as to the proper conduct of business in accordance with the regulatory environment in which the Company, the Administrator and the Investment Adviser operate. The Company's auditor also attends the Audit Committee at its request and report on its work procedures, the quality and effectiveness of the Company's accounting records and its findings in relation to the Company's statutory audit.

#### *Management Engagement Committee*

The Management Engagement Committee, chaired by Professor Claudio Albanese, meets at least once per year. It comprises the entire Board. The Management Engagement Committee is responsible for the regular review of the terms of the Investment Advisory Agreement and the performance of the Administrator and the Investment Adviser and also the Company's other service providers.

#### *Nominations and Remunerations Committee*

The Nominations and Remunerations Committee, chaired by Nigel Ward, meets at least once per year. It comprises the entire Board. The Nominations and Remunerations Committee is responsible for considering the framework and policy for the remuneration of the Directors and to review the structure, size and composition of the Board on an annual basis.

#### *Risk Committee*

The Risk Committee, chaired by Nigel Ward, meets at least four times per year. It shall comprise of no fewer than two members. The Risk Committee is responsible for the review of the Company's overall risk appetite, tolerance and strategy and the oversight on the current risk exposures of the Company and future risk strategy.

#### *Directors' remuneration*

Each Director is currently entitled to a director's fee of £43,000 per annum. There are no performance conditions attaching to the remuneration of the Directors as the Board does not believe that this is appropriate for non-executive directors. The Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

#### *Directors' letters of appointment*

It is the Board's policy that none of the Directors has a service contract. The terms of the Directors' appointment provide that they will retire and be subject to re-election at every annual general meeting after their appointment. Those terms also provide that a Director may be removed without notice and that compensation will not be due on leaving office. All the Directors have agreed to stand for re-election annually.

### **18 Conflicts of interest**

Conflicts of interest may arise between some or all of the Directors, the Company, Fair Oaks Capital, Master Fund II, Master Fund III and the General Partner and certain of the directors, members and officers of each. However, as at the date of this document, except as stated below, there are no material relationships between the Directors and these parties, nor any potential or actual conflicts of interest between any duties owed to the Company by the Directors and their private interests or other duties.

Fair Oaks Capital, its affiliates and its principals (including Miguel Ramos Fuentenebro and Roger Coyle) and the General Partner hold Shares in the Company. The General Partner holds 1,103,685 2017 Shares in the Company. Miguel Ramos Fuentenebro holds 1,428,430 2017 Shares in the Company. Roger Coyle holds 413,454 2017 Shares in the Company. Fair Oaks Capital holds 122,062 2017 Shares in the Company.

Certain principals of the Investment Adviser (such as Miguel Ramos Fuentenebro and Roger Coyle) are shareholders of the General Partner and limited partners of Master Fund II, MFII Founder Partner and MFIII Founder Partner.

The General Partner acts as general partner to Master Fund II, Master Fund III, MFII Founder Partner and MFIII Founder Partner. The Investment Adviser acts as investment adviser to the Company, Master Fund II and Master Fund III.

In respect of any Placees under the Placing Programme who are introduced to Numis or Liberum by Fair Oaks (or its consultants), Fair Oaks (or the relevant consultant) is entitled to receive a fee payable to it by Numis or Liberum (as applicable) based on a percentage of the aggregate gross amount invested by the afore-mentioned Placees introduced by Fair Oaks (or the relevant consultant) to Numis or Liberum (as applicable).

### **19 Share incentive schemes**

The Company has no share incentive scheme in relation to the Board or any personnel of any third party service providers.

### **20 Meetings, accounts and reports to Shareholders**

Monthly factsheets are published on the Company's website <https://www.fairoaksincome.com> summarising the Company's performance. The Company's annual reports and accounts are made up to 31 December in each year and are expected to be made available to Shareholders within the following four months. The most recent audited annual report was prepared to 31 December 2019. The Company also publishes unaudited half-yearly reports to 30 June in each year and are expected to be made available to Shareholders within the following three months. The most recent unaudited half-yearly report was prepared to 30 June 2020. The Company has adopted IFRS.

The Company holds an annual general meeting each year. Its most recent annual general meeting was held on 11 June 2020. Annual general meetings of the Company are held in Guernsey or such other place (not being in the UK) as may be determined by the Board.

In accordance with the UK AIFMD and the EU AIFMD, the Company ensures that the following information in relation to the Company's investments is published in the Company's annual report

and audited accounts, which can be found on the Company's website, <https://www.fairoaksincome.com>:

- (i) the percentage of the Company's assets which are subject to special arrangements arising from their illiquid nature;
- (ii) any new arrangements for managing the liquidity of the Company;
- (iii) the current risk profile of the Company and risk management systems to manage those the Company's risks;
- (iv) any changes to the maximum level of leverage as well as any right of re-use of collateral or any guarantee granted under any leveraging arrangement. The Company will, in addition, notify Shareholders of any such changes without undue delay by issuing an announcement via the Regulatory Information Service; and
- (v) the total amount of leverage employed by the Company.

## **21 Duration of the Company**

Please refer to the sub-section headed "Duration of the Company" under paragraph 3(d) of Part 1 of this document.

## **22 Fees and expenses**

### *Costs and expenses of the preparation and publication of this Prospectus*

The Company is bearing fixed costs relating to the preparation and publication of this Prospectus and also certain initial costs and expenses of Master Fund III (these include the Commission application fee and costs relating to the registration of Master Fund III and the MFIII Founder Partner and Master Fund III's administrative launch costs), which in aggregate are expected to be approximately US\$0.8 million.

### *Costs and expenses of the Placing Programme*

The net proceeds of the Placing Programme are dependent on the number of Shares issued and the relevant placing price(s). The costs and expenses of each issue of Shares pursuant to a Placing under the Placing Programme will depend on subscriptions received. In the event Shares are issued pursuant to a Placing, the costs and expenses of that Placing are not expected to exceed 2.0 per cent. of the proceeds of the Placing. The costs of any issue of 2021 Shares are expected to be covered by issuing such 2021 Shares at a premium to the last published Net Asset Value per 2021 Share at the time of issue. The costs and expenses of any issue of C Shares under the Placing Programme will be paid out of the gross proceeds of such issue and will be borne by holders of such (tranche of) C Shares only.

### *Estimated expenses charged to the investor*

No expenses are directly charged to investors. The Company is bearing fixed costs relating to the preparation and publication of this Prospectus and also certain initial costs and expenses of Master Fund III (these include the Commission application fee and costs relating to the registration of Master Fund III and the MFIII Founder Partner and Master Fund III's administrative launch costs), which in aggregate are expected to be approximately US\$0.8 million.

It is intended that the costs and expenses of each Placing of 2021 Shares under the Placing Programme will be covered by issuing 2021 Shares at a premium to the last published Net Asset Value per 2021 Share at the time of issue, and that the costs of any issue of a tranche of C Shares will be allocated solely to the relevant tranche of C Shares, rather than being charged directly to any investor.

### *Ongoing annual expenses*

Ongoing operational expenses of the Company, in addition to the fees payable under the Investment Advisory Agreement, will include fees payable under the arrangements with the Company's broker, the Amended and Restated Administration and Secretarial Agreement, the registrar's agreement, Directors' fees and expenses, audit costs, expenses of publishing reports, notices and proxy materials to Shareholders, expenses of convening and holding meetings of Shareholders, costs of preparing, printing and/or filing all reports and other documents relating to the Company, expenses



of making any capital distributions, insurance premia in respect of directors and officers liability insurance for members of the Board, fees of the Commission, London Stock Exchange fees and associated fees of Admissions.

Fees and expenses that relate to the operational costs of Master Fund II, including fund administration expenses and audit and regulatory fees incurred, will be borne by Master Fund II. Fees and expenses that relate to the operational costs of Master Fund III, including fund administration expenses and audit and regulatory fees incurred, will be borne by Master Fund III. However, since the Company is a feeder fund that will, following Admission, have invested substantially all of its assets in Master Fund II and Master Fund III, the Company will in effect bear a proportionate amount of Master Fund II's and Master Fund III's annual expenses by virtue of its investment into Master Fund II and Master Fund III.

## PART 2

### MASTER FUND II

Master Fund II, FOIF II LP (formerly FOMC II LP), was established and registered on 24 February 2017 with registration number 2782 and is a limited partnership without separate legal personality registered in Guernsey pursuant to the Partnership Law. Its registered office is at Sarnia House, Le Truchot, St Peter Port, Guernsey GY1 1GR. Its telephone number is 01481 737600 and its LEI is 213800ANN83I38BISH43. Its relationship with the Company is governed by the MFII Partnership Agreement. Master Fund II is registered with the Commission as a Registered Closed-ended Collective Investment Scheme. Master Fund II is regulated by the Commission and is required to comply with the RCIS Rules issued by the Commission.

**Please note that the commitment period of Master Fund II will end on 12 June 2021. The Net Proceeds pursuant to the Placing Programme are expected to be invested substantially in Master Fund III. Please refer to Part 3 for details on Master Fund III.**

The terms of issue of Master Fund II are summarised below and a summary of the terms of the MFII Partnership Agreement is set out under the heading “MFII Partnership Agreement” in paragraph 16.1 of Part 7 of this document.

#### **1 Master Fund II’s investment objective, policy and restrictions**

##### **1.1 Investment objective**

The investment objective of Master Fund II is to generate attractive risk-adjusted returns, principally through income distributions.

##### **1.2 Investment policy**

Master Fund II’s investment policy is to invest (directly or indirectly) in US, UK 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.

Master Fund II invests primarily in the income notes of issuers of CLOs (also known as “CLO equity” and being the most subordinated notes of a CLO), including those to which it acts as originator for European risk retention purposes, or the equivalent securities of other structures, but may also invest in debt securities.

Master Fund II complies with the following investment restrictions:

- (i) **Diversification:** Master Fund II does not make investments that would cause it to have exposure to a single borrower or issuer of a debt security (or guarantor thereof) (“**corporate issuer**”) exceeding 5 per cent. of Master Fund II’s Aggregate Gross Assets at the time of investment. For the avoidance of doubt, special purpose vehicles such as issuers of CLOs will not be considered corporate issuers.
- (ii) **Geographical Limitations:** Master Fund II does not make investments that cause it to have exposure of more than 10 per cent. of the Aggregate Gross Assets at the time of investment to corporate issuers headquartered and operating principally outside the European Union, the United Kingdom, the United States and Canada.
- (iii) **Derivatives:** Master Fund II does not invest in publicly traded options, futures or financial derivatives except for efficient portfolio management in connection with an Investment, proposed Investment or Investments generally.
- (iv) **Non-Corporate Loans:** Master Fund II does not invest in mortgage backed securities or asset-backed securities, other asset-backed obligations backed by mortgages or other non-corporate loans; provided that Master Fund II may invest in portfolios which may include companies with substantial real estate holdings.

Master Fund II is required at all times to invest and manage its assets with the objective of spreading investment risk and in accordance with its investment policy. It must not invest more than 10 per cent. of its Aggregate Gross Assets in listed closed-ended investment funds. It must not conduct any trading activity which is significant in the context of its group as a whole.

### *Cash management*

Uninvested cash or surplus capital or assets may be invested in cash or cash equivalents, “government and public securities” as defined for the purposes of the FCA Rules, money market instruments, bonds, commercial paper or other debt obligations with banks or other counterparties having a “single A” (or equivalent) or higher credit rating as determined by any internationally recognised rating agency selected by the GP Directors (which may or may not be registered in the EU). The aggregate amount deposited or invested with any single bank or other non-government counterparty (including their associates) shall not exceed 20 per cent. of Master Fund II NAV at the time of investment.

### *Borrowings*

Master Fund II does not have any borrowings except for short term borrowings not to exceed 20 per cent. of Master Fund II NAV except and borrowings of investment holding companies except borrowing that is non-recourse to Master Fund II and is used to acquire CLOs or other vehicles or structures. Master Fund II’s investment policy does not limit such non-recourse borrowings.

## **2 Breach of investment policy**

In accordance with the terms of the MFII Partnership Agreement, Master Fund II shall terminate if, amongst other things, the General Partner has been determined following a judgment by a court of law of competent jurisdiction to have committed a material breach of the MFII Partnership Agreement and if such breach has been shown to have resulted in Master Fund II and/or any of the Limited Partners suffering a material financial disadvantage. Failure to comply in any material respect with the investment policy as set out in the MFII Partnership Agreement would constitute a material breach.

The MFII Partnership Agreement contains provisions enabling Master Fund II to be reconstituted, but this can only be done pursuant to a Majority Consent and requires that a new general partner be elected immediately.

## **3 Investment portfolio**

As at the Latest Practicable Date, Master Fund II’s portfolio comprised 52 investments. The top 8 investments, representing approximately 54 per cent. of the value of the total portfolio (valued as at 26 February 2021, being Master Fund II’s last valuation date), were as follows:

<i>Asset portfolio</i>	<i>Carrying value</i> <i>(\$)</i>	<i>% value of total</i> <i>of portfolio</i>
FOAKS 2X SUBBC	45,396,950	11%
FOAKS 3X SUB Mtge Pvt. Cpn 10/15/2033	40,990,065	10%
POST CLO 2018-1X SUB 4/16/31	30,247,525	7%
FOAKS 1X SUB%	26,368,867	6%
ALLEG 2017-2X SUB MTGE	25,918,750	6%
SHACKLETON CLO 2018-12X SUB 7/20/31	19,500,000	5%
WELLFLEET CLO 2018-1X 7/17/25	18,768,750	4%
ARES 2015-35X SUB 0% 15/10/2025	18,460,000	4%

*(Source: Master Fund II’s unaudited report).*

As at the Latest Practicable Date, Master Fund II's portfolio, on a look through basis, had exposure to 1072 issuers and the following top ten exposures:

<i>Issuer</i>	<i>Company Rating S&amp;P</i>	<i>% gross</i>	<i>Industry</i>	<i>Country</i>
Nidda Healthcare Holdings	B	0.63%	Healthcare & Pharmaceuticals	Germany
Albea Beauty Holdings	B	0.63%	Containers, Packaging & Glass	France
Dexko Global	B-	0.62%	Automotive	United States
Armacell INS US Holding	B	0.61%	Construction & Building	Germany
Altice SFRFP	B	0.60%	Media: Broadcasting & Subscription	United States
Castle US Holding	B-	0.59%	High Tech Industries	United States
Panther BF Aggregator 2 LP	B	0.57%	Automotive	Canada
Incos Enterprises Holdings II Limited	BB	0.57%	Chemicals, Plastics & Rubber	United Kingdom
Ammeraal Beltech Holding B.V.	B-	0.56%	Capital Equipment	Netherlands
ION Trading Technologies	B	0.55%	High Tech Industries	Luembourg

(Source: Master Fund II's unaudited report).

As at the Latest Practicable Date, Master Fund II's portfolio, on a look through basis, had exposure to the following top ten industries: (Source: Master Fund II's unaudited report)

<i>Industry</i>	<i>% of portfolio</i>
Healthcare & Pharmaceuticals	14.6%
High Tech Industries	9.7%
Services: Business	8.6%
Banking, Finance, Insurance & Real Estate	6.0%
Telecommunications	5.7%
Beverage, Food & Tobacco	5.5%
Chemicals, Plastics & Rubber	5.0%
Services: Consumer	4.8%
Construction & Building	4.4%
Hotel, Gaming & Leisure	3.8%

As at the Latest Practicable Date, Master Fund II's portfolio, on a look through basis, had exposure to loans categorised by S&P in the following credit ratings: (Source: Master Fund II's unaudited report)

<i>S&amp;P Rating</i>	<i>% of portfolio<sup>2</sup></i>
Baa3 and above	0.8%
Ba1	2.4%
Ba2	4.7%
Ba3	10.8%
B1	20.0%
B2	38.4%
B3	16.6%
Caa1	2.6%
Caa2	1.0%
Caa3	0.7%
Ca and below	0.2%
NR	1.8%

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2 Based on par value of loans in gross portfolio: Source: Master Fund II's unaudited report.

#### **4 Investments in progress**

Master Fund II acts as originator and risk retention holder for Securitisation Regulation purposes to Fair Oaks Loan Funding IV DAC, to which the Investment Adviser acts as collateral manager. Fair Oaks Loan Funding IV DAC has entered a warehouse financing facility with Barclays Bank plc in order to fund the acquisition of a portfolio of loans preceding the closing and issuance of senior notes for that CLO, which is anticipated to occur over the coming months. On close it is intended that a vehicle associated with Master Fund II will assume the role of originator and risk retention holder for Securitisation Regulation purposes in respect of Fair Oaks Loan Funding IV DAC.

#### **5 Contribution Agreement**

Please refer to paragraph 6 of Part 1 of this document.

#### **6 Duration of Master Fund II**

Master Fund II has a fixed life until the later of (i) expiry of five years following the end of the Commitment Period (being 12 June 2026, this being five years following the end of the Commitment Period); and (ii) such date on which Master Fund II ceases to hold any investment in a CLO issuer which was made during the Commitment Period and for which Master Fund II has acted as originator for risk retention purposes.

#### **7 Admission of new Limited Partners**

The last date on which further Commitments by new Limited Partners and increases in Commitments by existing Limited Partners in Master Fund II may occur is 5 April 2021.

As at the date of this document, the MFII Founder Partner, the Company, Miguel Ramos Fuentenebro, Roger Coyle and one other external investor are the only Limited Partners in Master Fund II. Their respective ownership rights are set out in paragraph 16.1 of Part 7 under the heading "Distributions".

#### **8 Currency hedging**

Currency hedging may be used for efficient portfolio management purposes (but may not be used to enhance investment returns). Master Fund II operates in US\$ as its base currency and hedges the value of any non-US\$ assets into US\$ using spot and foreign exchange contracts, rolling forward on a periodic basis. Master Fund II cannot give any assurance that it will in all cases be able to hedge all non-US\$ currency exposure or that the hedges will be completely effective, so while Master Fund II will seek to minimise the exposure, Master Fund II may potentially be exposed

to some currency risk. Master Fund II will also be exposed to counterparty risk associated with its hedging.

## **9 General Partner**

The General Partner, Fair Oaks Income Fund (GP) Limited, is a non-cellular company limited by shares and was incorporated on 7 March 2014 in Guernsey with registration number 58125. The registered office of the General Partner is Sarnia House, St Peter Port, Guernsey, GY1 1GR. The General Partner is majority-owned by the principals of Fair Oaks Capital. The General Partner acts as the general partner of both Master Fund II (and an entity associated with Master Fund II), Master Fund III, MFII Founder Partner and MFIII Founder Partner.

The GP Directors are responsible for managing the business affairs of the General Partner, which is responsible for managing the business affairs of Master Fund II in accordance with the MFII Partnership Agreement and overall responsibility for Master Fund II's activities, including its investment activity and performance. The GP Directors may delegate certain functions of the General Partner to other parties such as the Investment Adviser but not, for the avoidance of doubt, investment or divestment decisions.

The address of the GP Directors, all of whom are non-executive, is the registered office of the General Partner. The GP Directors are as follows:

### **Miguel Arraya**

Mr Arraya started his career as an investment professional in 1986 when he joined Philipps and Drew Jersey on a graduate training programme and subsequently trained and worked in London, Paris, New York, Jersey and Guernsey. He has broad experience as a money manager, including equity, fixed income, currencies, derivatives and a broad array of alternative investment strategies. He has held executive positions with Sheppards and Chase, Matheson Securities, Royal Bank of Scotland International, Sigma Asset Management Guernsey, where he was managing director, Barclays Wealth and UBS. He now works as a self-employed management consultant and a professional non-executive director. At Sigma Asset Management, Mr Arraya was responsible for the management of US\$ 2 billion of hedge fund of funds, across a broad range of hedge fund styles.

Mr Arraya has a MBA with distinction, a BA in Economics and Accounting, is a Chartered Wealth Manager and Chartered Fellow of the Chartered Institute for Securities and Investment, a Fellow of the Chartered Management Institute, and is an Institute of Directors Chartered Director. Mr Arraya has attended the London Business School's investment management programme. He also holds the International Capital Markets Association General Certificate.

Mr Arraya is the principal of MFA Consulting Limited, a director of Alpha Pension Fund Limited, non-executive director of Rokos Capital Management (GP) Ltd, Rokos Intermediate (Jersey) Limited, FSN Capital Holding III Limited, FSN Capital GP IV Limited, FSN Capital GP V Limited and FSN Capital Growth GP Limited, FSN Capital GP VI Limited, Fitz Walter Capital Partners Holdco limited, FitzWalter Capital Partners (Special Limited Partner) GP Limited and Vesci Limited. Mr Arraya is a Jersey resident.

### **Chris Waldron**

Mr Waldron is the Chairman of UK Mortgages Limited and Crystal Amber Fund Limited as well as a director of a number of unlisted companies. He has over 30 years' experience as an investment manager, specialising in fixed income, hedging strategies and alternative investment mandates and until 2013 was Chief Executive of the Edmond de Rothschild Group in the Channel Islands. Prior to joining the Edmond de Rothschild Group in 1999, Mr Waldron held investment management positions with Bank of Bermuda, the Jardine Matheson Group and Fortis. From 2014 until 2020, Mr Waldron was a non-political member of the States of Guernsey's Investment and Bond Sub-Committee. He is a Fellow of the Chartered Institute of Securities and Investment. Mr Waldron is a Guernsey resident.

### **Chris Hickling**

Mr Hickling was educated in New Zealand and qualified as a Chartered Accountant before moving to Guernsey in 1998, where he worked for Credit Suisse and Deutsche Bank before joining Close Fund Services in 2001, becoming Operations Director in 2005. In 2007, Chris joined Investec



Administration Services Limited as head of operations, with Investec subsequently being sold to Praxis in 2009. Mr Hickling launched International Fund Management Limited, a PraxisIFM group company, in 2013 and is managing director of the business, which focusses on providing risk, Alternative Investment Fund Managers Directive and general management solutions for funds, boards and investment advisors as well as monitoring of portfolios for various clients.

Mr Hickling has over 20 years' experience in the finance industry and sits on a number of fund boards for a diverse array of clients that includes asset sectors such as debt, infrastructure, private equity and equities.

#### **10 GP Directors' appointment and remuneration**

Miguel Arraya was appointed as a GP Director on 29 April 2014. His appointment is terminable on three months' notice by either him or the General Partner. The fee payable for his services as a GP Director is £43,000 per annum.

Chris Waldron was appointed as a GP Director on 29 April 2014. His appointment is terminable on three months' notice by either him or the General Partner. The fee payable for his services as a GP Director is £43,000 per annum.

Chris Hickling was appointed as a GP Director on 22 July 2019. His appointment is terminable on three months' notice by either him or the General Partner. The fee payable for his services as a GP Director is £43,000 per annum.

#### **11 Investment Adviser and the MFII Investment Advisory Agreement**

The Investment Adviser was incorporated on 19 October 2012 and is registered in England and Wales under the Companies Act 2006. The Investment Adviser is a related party to Fair Oaks Capital US LP, a Delaware limited partnership established in February 2016 and domiciled in the US. Fair Oaks Capital is an independent asset management firm focused on the global credit markets. Fair Oaks Capital has two primary offices located in London and New York.

The MFII Investment Advisory Agreement was entered into on 9 March 2017 between the General Partner and the Investment Adviser, pursuant to which the Investment Adviser has agreed to provide investment advisory services to the General Partner in relation to the portfolio of assets held by Master Fund II from time to time. Under this agreement, the Investment Adviser is responsible for:

- (i) searching out, identifying, evaluating and recommending to the General Partner suitable investments;
- (ii) advising the General Partner on the merits and structure of any investments and disposals and assisting the General Partner to negotiate and arrange such investments and disposals and any related amendment, alteration or restructuring of an investment or the commercial effect thereof;
- (iii) reviewing the priority of payments and main structural features of potential investments;
- (iv) providing scenario analysis of the sensitivity of cash flows to default rates, recovery rates, prepayments, interest rates and other variables as agreed with the General Partner;
- (v) monitoring the performance of investments and making divestment recommendations;
- (vi) procuring that any information which the General Partner may reasonably require relating to the investments shall be notified or reported to the General Partner whenever relevant and in any event at such intervals as the General Partner may reasonably require;
- (vii) if required by the General Partner, preparing material regarding the investments for inclusion in annual or other reports of Master Fund II (including the valuations);
- (viii) advising the General Partner in relation to all matters which it appears to the Investment Adviser would be advantageous to Master Fund II in implementing its investment policy and restrictions or otherwise making investments or disposing of investments including (without limitation) advising in relation to underwritings or syndications;
- (ix) regularly reviewing Master Fund II's investment policy;

- (x) attending board meetings (as spectators only notwithstanding any requirements of the roles of officers or directors of the Investment Adviser in their personal capacities) of the General Partner as required;
- (xi) advising the General Partner on procuring accounting, financial reporting, cash management and other related services of Master Fund II (such services to be carried out by the Administrator, custodian, cash management and other related services of Master Fund II);
- (xii) advising the General Partner on engaging employees, independent agents, lawyers, accountants, custodians, paying and collecting agents and financial and other advisers in relation to the affairs of Master Fund II; and
- (xiii) providing such other advice as the General Partner may reasonably request.

The MFII Investment Advisory Agreement is for a term corresponding to the term of Master Fund II or until the General Partner or any of its associates cease to act as the General Partner of Master Fund II, unless terminated earlier by the insolvency, bankruptcy, dissolution or liquidation of the Investment Adviser, or if the Investment Adviser commits gross negligence, wilful misconduct, bad faith, reckless disregard or material breach of its obligations under the MFII Investment Advisory Agreement, or the Investment Adviser ceases to be authorised for the purposes of FSMA or no longer has the permissions required of it for the purposes of carrying out its obligations under the MFII Investment Advisory Agreement.

The Investment Adviser will not, in the absence of any matter resulting in its criminal conviction, or its bad faith, fraud, gross negligence, bankruptcy, wilful misconduct or reckless disregard for or material breach of its obligations and duties under the MFII Investment Advisory Agreement, be liable to the General Partner, Master Fund II or its Limited Partners arising from or in connection with its provision of services under the MFII Investment Advisory Agreement. In addition, the General Partner has agreed to indemnify (out of its own assets) the Investment Adviser and its associates, director, officers, shareholders, partners, agents, consultants and employees (in addition to the indemnity under the MFII Partnership Agreement) against all or any actions, proceedings, claims, costs, demands, expenses, damages, and liabilities (other than those resulting from bad faith, fraud, gross negligence or wilful misconduct, reckless disregard for or material breach of its obligations and duties) arising out of the performance of the Investment Adviser's duties pursuant to the MFII Investment Advisory Agreement.

The General Partner shall in each year pay to the Investment Adviser as compensation for its services an advisory fee in an amount agreed between the General Partner and the Investment Adviser from time to time. Master Fund II shall pay the reasonable out of pocket expenses of the Investment Adviser in accordance with the MFII Partnership Agreement.

## **12 Key individuals at Fair Oaks Capital**

**Senior Members of the Fair Oaks Capital's investment team are as follows:**

### **Miguel Ramos Fuentesnebro**

Mr Ramos is one of the founders of Fair Oaks Capital. Prior to found Fair Oaks Capital, Mr Ramos was a managing director of GSO Capital Partners ("**GSO**"), part of The Blackstone Group. Prior to joining GSO in June 2008, Mr Ramos was the founding partner of Washington Square Investment Management Limited, a specialist credit investment manager responsible for, among others, the launch of Carador Income Fund Plc ("**Carador**"), one of the first London-listed credit investment companies. Prior to this, Mr Ramos spent over 9 years at Morgan Stanley (London) in their Fixed Income Division where he specialised in high yield cash and derivative products. He holds a BSc. (Honors) in Economics from Universidad Pontificia Comillas (ICADE), Madrid, Spain and a MSc. (Econ) In Accounting and Finance from the London School of Economics and Political Science. Mr Ramos is a UK resident.

### **Roger Coyle**

Mr Coyle is a co-founder of Fair Oaks Capital. Prior to Fair Oaks Capital, Mr Coyle was a Principal at GSO Capital Partners, part of The Blackstone Group, where he was a senior credit analyst and the Portfolio Manager for GSO/Blackstone's eight London-based CLO funds. Prior to joining Blackstone in 2006, Mr Coyle spent two years at Fitch Ratings as a Director in the Leveraged Finance Group where he was responsible for assigning public and private credit ratings to

leveraged loans and high yield bonds and publishing research on the leveraged finance market. Mr Coyle began his career in 1995 at JPMorgan where he spent six years working in the mergers & acquisitions, financial sponsor coverage and leveraged finance groups. Mr Coyle has a B.Comm International, a joint honours degree in Business and French, from University College Dublin.

#### **Tyler Wallace**

Mr Wallace is a Managing Director and Portfolio Manager at Fair Oaks Capital. At Fair Oaks he is responsible corporate credit investments including the management of the Fair Oaks Loan Funding CLO program. Prior to joining Fair Oaks, Mr Wallace was Head of Corporate Credit at Mediterranean Bank Plc where he built a corporate credit platform that invested in leveraged loans, high yield bonds and direct lending opportunities. In addition to sourcing c€3bn of leveraged loans and high yield bonds, he completed the acquisition of two CLO loan portfolios and was responsible for the issuance of one of the best performing CLO 2.0 transactions (Creditflux Award Winner 2015 and 2016). Prior to joining Mediterranean Bank, Mr Wallace was a Senior Adviser to the Bank of England and an investment analyst and portfolio manager at Pamplona Capital and New Amsterdam Capital. Mr Wallace holds a BS in Finance and a BS in International Studies from Indiana University and is a Chartered Financial Analyst (CFA) charterholder.

#### **Senior Members of Fair Oaks' non-investment team are as follows:**

##### **William J. Sheoris**

Mr Sheoris is a co-founder of Fair Oaks Capital and is its Chief Operating Officer. Mr Sheoris was most recently a senior executive in the credit group of Apollo Global Management. While at Apollo, Mr Sheoris was responsible for facilitating the acquisition and merger of Stone Tower's non-investment functions into Apollo's global infrastructure. Mr Sheoris was one of the three original founders of Stone Tower Capital, was a member of the firm's Management Committee and was a member of the Board of Directors of the firm's CLOs and hedge funds. Mr Sheoris was the lead partner in charge of developing and overseeing all of the non-investment functions of Stone Tower Capital and served as the Chief Financial Officer. Additionally, Mr Sheoris sat on a number of investment committees and was solely responsible for the negotiation and structuring of all of the Stone Tower Capital's investment vehicles, leverage sources and derivative instruments. Prior to the launch of Stone Tower, Mr Sheoris was the founder and general partner of a venture capital fund focused on infrastructure and software. Mr Sheoris began his career as an investment banking analyst in the private equity sponsor group at Smith Barney Inc. and later as an analyst on the convertible capital markets desk. Mr Sheoris is a graduate of the Eller College of the University of Arizona and holds a BSBA in both finance and management information systems.

##### **Charles Carvell, Head of Legal and Compliance**

Prior to joining Fair Oaks Capital, Mr Carvell was Head of Legal and Product Development at ETF Securities ("ETFS") where he was responsible for oversight of the legal function and the development and maintenance of ETFS' range of exchange traded products across Europe, the US and Asia, with total assets under management of approximately US\$32 billion at its peak. Mr Carvell also served as a director of ETFS' London-based, FCA-regulated operating entity and served on various committees. Prior to joining ETFS in 2007, Mr Carvell spent 2 years at Nomura International in London as a transaction lawyer working with their International Equity Derivatives team. Mr Carvell began his career at Dechert LLP, where he spent 6 years as a lawyer specialising in financial services and investment funds. Mr Carvell has an LLB (Hons) degree from the University of Durham.

#### **13 The MFII Advisory Committee**

The MFII Advisory Committee is comprised of representatives of the Limited Partners of Master Fund II selected by the General Partner. The MFII Advisory Committee provides advice and counsel to the General Partner in connection with matters related to Master Fund II as requested by the General Partner and will be required to approve certain matters, including conflicts of interest. The Company has the right to appoint one member to the MFII Advisory Committee throughout the life of Master Fund II. For so long as the Company holds more than 50 per cent. of the Total

Commitments, it will have the right to appoint a majority of members of the MFII Advisory Committee.

The General Partner is required to consult with the MFII Advisory Committee prior to investing in any Investment which is managed or advised by the General Partner, the Investment Adviser or an Affiliate.

#### **14 Distributions policy**

Master Fund II makes periodic distributions of income to its Limited Partners with the aim of distributing all net income from Investments each year. It is currently intended that distributions will be made quarterly.

The General Partner is not permitted to cause Master Fund II to make a distribution if Master Fund II does not have sufficient cash available to make the distribution or if the distribution would leave Master Fund II with insufficient funds to meet its expenses (including the MFII Management Fee) in the current accounting period or otherwise render Master Fund II insolvent.

All proceeds from the realisation of investments are distributed to Master Fund II's Partners or retained to cover the expenses of Master Fund II or retained for the purposes of reinvestment (in the case of reinvestment, this will be restricted after the Commitment Period of Master Fund II so that it only applies to follow-on Investments (i.e. investments made for the purpose of protecting or enhancing an existing Investment) not exceeding an amount equal to 15 per cent. of Total Commitments or, where Master Fund II acts as originator to a CLO for European risk retention purposes, investments in corporate loans where a simultaneous forward purchase agreement is entered with that CLO issuer in respect of the sale of the same loans.

All income and proceeds from realisations of investments that are available for distribution (after payment of expenses and liabilities of Master Fund II) shall be allocated to Master Fund II's Limited Partners in accordance with their respective shares in the profits of Master Fund II and applied in the following manner (and references to the Limited Partner below shall only apply to the MFII Founder Partner if and to the extent it has made a Commitment):

- (a) first, 100 per cent. to the General Partner until it has been paid the MFII Management Fee;
- (b) second, to repay the Limited Partner's Outstanding Loan;
- (c) third, to the Limited Partner until the Limited Partner has reached its preferred return threshold (being an amount equivalent to an IRR of 7 per cent. on the Outstanding Loan of such Limited Partner); and
- (d) fourth, (i) 100 per cent to the Investor in respect of capital and income proceeds arising from its investment in FOIF I LP that were not reinvested in Master Fund II; and (ii) 85 per cent to the Limited Partner and 15 per cent. to the MFII Founder Partner.

At the end of the life of Master Fund II any assets remaining will be distributed. The General Partner anticipates the distribution being made in cash. The General Partner may, in its discretion, distribute all or any of Master Fund II's assets in specie upon termination of Master Fund II. The Company will be entitled to require the General Partner (or, where appropriate, the liquidating trustee of Master Fund II) to continue to hold title to such assets, at the Company's cost, solely for the benefit of the Company and use reasonable efforts to sell such assets on the Company's behalf on terms acceptable to the Company. For the avoidance of doubt the distribution shall be deemed to have been made at the time of the proposed in specie distribution.

#### **15 Expenses of Master Fund II**

Master Fund II is responsible for all ongoing expenses, direct or indirect, incurred in relation to the administration and business of Master Fund II, including, without limitation, costs of printing and circulating reports and notices, all introduction and similar fees, abort costs, legal fees, directors' fees, administrators', auditors' and valuers' fees, registration fees, accounting expenses (including any expenses associated with the preparation of financial statements and tax returns), fees and expenses of holding any meetings of Master Fund II or the MFII Advisory Committee, any costs associated with compliance and advice in relation to compliance with the EU AIFMD, UK AIFMD, CRS, FATCA, any tax information arrangements, reasonable and attributable out-of-pocket expenses of placement agents, brokers and intermediaries (but excluding commissions payable to placement

agents, brokers and intermediaries which shall be borne by the General Partner or its associates), fees and expenses incurred in relation to any custodian or nominee of Master Fund II's assets and the MFII Advisory Committee, fees and expenses relating to the admission of investors, establishment and ongoing fees and expenses of any conduit entity, external consultants' fees, advertising costs, bank charges, rating agencies, information services, independent price vendors, costs of meetings of Investors, insurance costs, borrowing costs, hedging costs, extraordinary expenses (such as litigation), costs of structuring, establishing, operating and liquidating any investment holding company, costs of any restructuring of Master Fund II or Investments, taxes, duties, fees and governmental charges incurred by Master Fund II and all stamp duties, costs associated with the liquidation of Master Fund II and fees of lawyers, accountants, auditors, valuers and any external consultants arising in respect of identifying, evaluating, negotiating, acquiring, holding, monitoring, protecting and realising Investments.

## **16 Fees of the General Partner**

The General Partner is entitled to the MFII Management Fee monthly in arrear during the term of Master Fund II, which started on the MFII Initial Closing Date. The MFII Management Fee is equal to 1.5 per cent. per annum of Master Fund II NAV (and *pro rata* in respect of accounting periods of more or less than one year).

The General Partner may agree rebate arrangements with any Limited Partner. In particular, any Limited Partner that has made a Commitment of US\$150 million or more (including for the avoidance of doubt the Company) shall be entitled to a rebate of its share of the MFII Management Fee such that it will pay a MFII Management Fee of 1 per cent. per annum of its share of Master Fund II NAV.

## **17 Carried Interest payable to the MFII Founder Partner**

The MFII Founder Partner is entitled to a carried interest equal to 15 per cent. of cash available to be distributed (including after payment of expenses and management fees) after Limited Partners have received a Preferred Return. The calculation of the Preferred Return threshold (as described above) is based solely on distributions and not on NAV calculations so Master Fund II will not pay any carried interest until its investors have realised the amounts drawn down for investments and their Preferred Returns.

## **18 Fees of the Investment Adviser**

The General Partner shall in each year pay to the Investment Adviser as compensation for its services an advisory fee in an amount agreed between the General Partner and the Investment Adviser from time to time.

## **19 Other activities**

The terms of the MFII Partnership Agreement provide that the functions and duties which the General Partner undertakes on behalf of Master Fund II shall not be exclusive and the General Partner and the Investment Adviser may perform similar functions and duties for others and, without limitation, may act as a general partner, manager or investment adviser of other funds or engage in any other activity and retain any benefit received for so doing, provided, however, that the General Partner continues properly to manage the affairs of Master Fund II.

## **20 Key man**

If at any time until the end of the Commitment Period both of Miguel Ramos Fuentenebro and Roger Coyle (or any replacements approved by the MFII Advisory Committee) cease to be active members or officers of the General Partner, the Investment Adviser or their associates then, if decided by the MFII Advisory Committee, Master Fund II shall not make any new investments (except those already committed to).

## **21 The Custodian**

In respect of Master Fund II, the Custodian provides safekeeping services in respect of such certificates and other documents as may represent investments in loans and CLOs in accordance with Master Fund II's investment policy.



## **22 Valuation of Master Fund II and Master Fund II NAV calculations**

The Administrator's valuation of Master Fund II is calculated as at the close of business on the last business day of every month by the Administrator and the General Partner, upon request will notify a Limited Partner by email within 10 Business Days of the end of the relevant month provided that such notification shall first be made to the Company and shall not be made to the other Limited Partners until the earlier of: (i) the Company having released its Net Asset Value per Share through the Regulatory Information Service; and (ii) 24 hours having passed since such notification to the Company (provided that such 24 hours shall only run during the 24 hours of a Business Day).

Investments that are traded or dealt on an organised market or exchange are valued by reference to their quoted market mid-price as at the close of trading on the relevant dealing day. The quoted market price used is based on the last traded market price.

Investments that are not traded or dealt on an organised market or exchange are valued by reference to their mid-price, as at the close of business on the relevant dealing day as determined by independent price vendors.

If a price cannot be obtained from an appropriate independent price vendor, or where the General Partner determines that the provided price is not an accurate representation of the fair value of the Investment, the General Partner will source mid-prices as at the close of the relevant dealing day from third party broker/dealer quotes for the relevant security.

In cases where no third party price is available (either from an independent price vendor or third party broker/dealer quotes), or where the General Partner determines that the provided price is not an accurate representation of the fair value of the Investment, the General Partner will determine the valuation based on the General Partner's valuation policy.

The overall criterion for fair value is a price at which a round lot, being the minimum amount that may be sold of a particular security, of the securities involved would change hands in a transaction between a willing buyer and a willing seller, neither being under compulsion to buy or sell and both having the same knowledge of the relevant facts. Consistent with the above criterion, the following criteria are considered when applicable:

- valuation of other securities by the same issuer for which market quotations are available;
- reasons for the absence of market quotations;
- the soundness of the security, its interest yield, the date of maturity, the credit standing of the issuer and current general interest rates;
- recent sales prices and/or bid and ask quotations for the security;
- value of similar securities of issuers in the same or similar industries for which market quotations are available;
- economic outlook of the relevant industry;
- an issuer's position in the relevant industry;
- the financial statements of the issuer; and
- the nature and duration of any restriction on disposition of the security.

The value of other assets held within Master Fund II's Portfolio is determined as follows:

- derivative instruments will be valued at fair value based on observable market inputs wherever possible; and
- cash or near cash will be held at par.

The calculation of Master Fund II NAV will only be suspended in circumstances where the underlying data necessary to value the investments of Master Fund II cannot readily, or without undue expenditure, be obtained. Details of any suspension in making such calculations will be announced through a Regulatory Information Service as soon as practicable.

## **23 Corporate governance**

The General Partner is licensed under the POI Law, entitling it to carry on controlled investment business in or from within the Bailiwick of Guernsey. The licence relates to the restricted activities



of promotion, subscription, registration, dealing, management, administration and advising. The General Partner is responsible for the management of Master Fund II's portfolio (as well as Master Fund III's portfolio). The General Partner is subject to the GFSC Code which applies to entities which hold a licence from the Commission under certain regulatory laws or which are registered or authorised as collective investment schemes. The Commission has received an assurance statement from the General Partner confirming that the principals of the General Partner have considered the effectiveness of their corporate governance practices and are satisfied with their degree of compliance with the principles set out in the GFSC Code.

## **24 Conflicts of interest**

Conflicts of interest may arise between some or all of the Directors, the Company, the Investment Adviser, Master Fund II, Master Fund III and the General Partner and certain of the directors, members and officers of each. However, as at the date of this document, except as stated below, there are no material relationships between the Directors and these parties, nor any potential or actual conflicts of interest between any duties owed to the Company by the Directors and their private interests or other duties.

Certain principals of the Investment Adviser (such as Miguel Ramos Fuentenebro and Roger Coyle) are also shareholders of the General Partner and limited partners of Master Fund II, MFII Founder Partner and MFIII Founder Partner.

Fair Oaks Capital, its affiliates and its principals (including Miguel Ramos Fuentenebro and Roger Coyle) and the General Partner hold Shares in the Company. The General Partner holds 1,103,685 2017 Shares in the Company. Miguel Ramos Fuentenebro holds 1,428,430 2017 Shares in the Company. Roger Coyle holds 413,454 2017 Shares in the Company. Fair Oaks Capital holds 122,062 2017 Shares in the Company.

The General Partner acts as general partner to Master Fund II, Master Fund III, MFII Founder Partner and MFIII Founder Partner. The Investment Adviser acts as investment adviser to the Company, Master Fund II and Master Fund III.

Master Fund II invests in CLOs to which Fair Oaks Capital acts as collateral manager and Master Fund II acts as originator and risk retention holder in respect of these CLOs, as described in paragraph 4 above. It is anticipated that an entity associated with Master Fund II may assume the role of originator and risk retention holder in respect of those CLOs upon any future reset, refinancing or reissue (if any were to occur).

In respect of any Placees under the Placing Programme who are introduced to Numis or Liberum by Fair Oaks (or its consultants), Fair Oaks (or the relevant consultant) is entitled to receive a fee payable to it by Numis or Liberum (as applicable) based on a percentage of the aggregate gross amount invested by the afore-mentioned Placees introduced by Fair Oaks (or the relevant consultant) to Numis or Liberum (as applicable).

## PART 3

### MASTER FUND III

Master Fund III, FOMC III LP, was established and registered on 10 March 2021 with registration number 3847 and is a limited partnership registered in Guernsey pursuant to the Partnership Law. Its registered office is at Sarnia House, Le Truchot, St Peter Port, Guernsey GY1 1GR. Its telephone number is 01481 737600 and its LEI is 2138003VDID1SMURO112. Its relationship with the Company is governed by the MFIII Partnership Agreement. Master Fund III is registered with the Commission as a Registered Closed-ended Collective Investment Scheme. Master Fund III is regulated by the Commission and is required to comply with the RCIS Rules issued by the Commission.

The terms of issue of Master Fund III are summarised below and a summary of the terms of the MFIII Partnership Agreement is set out under the heading “MFIII Partnership Agreement” in paragraph 17.1 of Part 7 of this document.

#### **1 Master Fund III’s investment objective, policy and restrictions**

##### **1.1 Investment objective**

The investment objective of Master Fund III is to generate attractive risk-adjusted returns, principally through income distributions.

##### **1.2 Investment policy**

Master Fund III’s investment policy is to invest (either directly or indirectly through Master Fund II or an investment holding company or other investment entity) in US, UK 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.

Master Fund III invests primarily in the income notes of issuers of CLOs (also known as “CLO equity” and being the most subordinated notes of a CLO), including those to which it (or an associated entity) acts as originator for European risk retention purposes, or the equivalent securities of other structures, but may also invest in debt securities.

As per the Reorganisation Proposal, it is expected that Master Fund III will initially invest in CLO income notes and mezzanine notes indirectly by way of its ownership of a limited partnership interest in Master Fund II.

Depending on the number of Shareholders whose shares are to be re-designated as 2021 Shares further to the Reorganisation Proposal, Master Fund III could hold a majority of the limited partnership interests in Master Fund II, although Master Fund III is expected to make further investments during its investment period which, if achieved, would in time result in it achieving its goal for diversification of investments.

Master Fund III will comply with the following investment restrictions (on a direct and indirect basis and measured as at the date of purchase):

- (i) **Diversification:** Master Fund III will not make investments that would cause it to have exposure to a single borrower or issuer of a debt security (or guarantor thereof) (“**corporate issuer**”) exceeding 5 per cent. of Master Fund III’s Aggregate Gross Assets at the time of investment. For the avoidance of doubt, special purpose vehicles such as issuers of CLOs will not be considered corporate issuers.
- (ii) **Geographical Limitations:** Master Fund III will not make investments that cause it to have exposure of more than 10 per cent. of the Aggregate Gross Assets at the time of investment to corporate issuers headquartered and operating principally outside the European Union, the United Kingdom, the United States and Canada.
- (iii) **Derivatives:** Master Fund III will not invest in publicly traded options, futures or financial derivatives except for efficient portfolio management in connection with an Investment, proposed Investment or Investments generally.

- (iv) **Non-Corporate Loans:** Master Fund III will not invest in mortgage backed securities or asset-backed securities, other asset-backed obligations backed by mortgages or other non-corporate loans; provided that Master Fund III may invest in portfolios which may include companies with substantial real estate holdings.
- (v) **Holdings of Master Fund II Interests:** The investment restrictions set out above will not be deemed breached by virtue of Master Fund II Interests or other indirect holdings through an associated entity held by Master Fund III. Such Master Fund II Interests or other such interests may exceed 5 per cent. of Master Fund III's Aggregate Gross Assets at the date of the Contribution Agreement and may represent a majority of the limited partnership interests in Master Fund II or any other associated entity.

Master Fund III is required at all times invest and manage its assets with the objective of spreading investment risk and in accordance with its investment policy. It must not invest in listed closed-ended investment funds. It must not conduct any trading activity which is significant in the context of its group as a whole.

#### *Cash management*

Uninvested cash or surplus capital or assets may be invested in cash or cash equivalents, "government and public securities" as defined for the purposes of the FCA Rules, money market instruments, bonds, commercial paper or other debt obligations with banks or other counterparties having a "single A" (or equivalent) or higher credit rating as determined by any internationally recognised rating agency selected by the GP Directors (which may or may not be registered in the EU). The aggregate amount deposited or invested with any single bank or other non-government counterparty (including their associates) shall not exceed 20 per cent. of Master Fund III NAV at the time of investment.

#### *Borrowings*

Master Fund III does not have any borrowings except for short term borrowings not to exceed 20 per cent. of Master Fund III NAV and borrowings of investment holding companies except borrowing that is non-recourse to Master Fund III and is used within CLOs or other vehicles or structures. Master Fund III's investment policy does not limit such non-recourse borrowings.

## **2 Breach of investment policy**

In accordance with the terms of the MFIII Partnership Agreement, Master Fund III shall terminate if, amongst other things, the General Partner has been determined following a judgment by a court of law of competent jurisdiction to have committed a material breach of the MFIII Partnership Agreement (which, if capable of being remedied, is not cured within 30 days of the date of the breach) and if such breach has been shown to have resulted in Master Fund III and/or any of the Limited Partners suffering a material financial disadvantage. Failure to comply in any material respect with the investment policy as set out in the MFIII Partnership Agreement would constitute a material breach.

The MFIII Partnership Agreement contains provisions enabling Master Fund III to be reconstituted, but this can only be done pursuant to a Majority Consent and requires that a new general partner be elected immediately.

## **3 Contribution Agreement**

Please refer to paragraph 6 of Part 1 of this document.

## **4 Duration of Master Fund III**

Master Fund III has a fixed life until the later of: (i) expiry of five years following the end of the Commitment Period; and (ii) such date on which Master Fund III ceases to hold any investment in a CLO issuer which was made during the Commitment Period, or any reset, upsize, reissue or re-financing thereof, and for which Master Fund III has acted as originator for risk retention purposes.

## **5 Admission of new Limited Partners**

Following the admission of the Company to Master Fund III as a Limited Partner, the General Partner may accept Commitments by new Limited Partners and increases in Commitments by

existing Limited Partners in Master Fund III until 12 June 2023, provided that the Commitment Period may be extended by up to two additional consecutive one year periods at the discretion of the General Partner.

As at the date of this document, the MFIII Founder Partner and the Company are the only Limited Partners in Master Fund III. Their respective ownership rights are set out in paragraph 17.1 of Part 7 under the heading “Distributions”.

## **6 Currency hedging**

Currency hedging may be used for efficient portfolio management purposes (but may not be used to enhance investment returns). Master Fund III operates in US\$ as its base currency and hedges the value of any non-US\$ assets into US\$ using spot and foreign exchange contracts, rolling forward on a periodic basis. Master Fund III cannot give any assurance that it will in all cases be able to hedge all non-US\$ currency exposure or that the hedges will be completely effective, so while Master Fund III will seek to minimise the exposure, Master Fund III may potentially be exposed to some currency risk. Master Fund III will also be exposed to counterparty risk associated with its hedging.

## **7 General Partner**

The General Partner was incorporated on 7 March 2014 in Guernsey, with registered number 58125. The registered office of the General Partner is Sarnia House, St Peter Port, Guernsey, GY1 1GR. The General Partner is majority-owned by the principals of Fair Oaks Capital. The General Partner acts as the general partner of Master Fund II (and an associated entity), Master Fund III, MFII Founder Partner and MFIII Founder Partner.

The GP Directors are responsible for managing the business affairs of the General Partner, which is responsible for managing the business affairs of Master Fund III in accordance with the MFIII Partnership Agreement and overall responsibility for Master Fund III's activities including its investment activity and performance. The GP Directors may delegate certain functions of the General Partner to other parties such as the Investment Adviser but not, for the avoidance of doubt, investment or divestment decisions. The address of the GP Directors, all of whom are non-executive, is the registered office of the General Partner.

A list of the GP Directors, their brief biographies and the terms of their appointment are contained in Part 2 of this document.

## **8 Investment Adviser and the MFIII Investment Advisory Agreement**

The Investment Adviser was incorporated on 19 October 2012 and is registered in England and Wales under the Companies Act 2006. The Investment Adviser is a related party to Fair Oaks Capital US LP, a Delaware limited partnership established in February 2016 and domiciled in the US. Fair Oaks Capital is an independent asset management firm focused on the global credit markets. Fair Oaks Capital has two primary offices located in London and New York.

The MFIII Investment Advisory Agreement was entered into between the General Partner and the Investment Adviser, pursuant to which the Investment Adviser has agreed to provide investment advisory services to the General Partner in relation to the portfolio of assets held by Master Fund III from time to time. Under this agreement, the Investment Adviser is responsible for:

- (i) searching out, identifying, evaluating and recommending to the General Partner suitable investments;
- (ii) advising the General Partner on the merits and structure of any investments and disposals and assisting the General Partner to negotiate and arrange such investments and disposals and any related amendment, alteration or restructuring of an investment or the commercial effect thereof;
- (iii) reviewing the priority of payments and main structural features of potential investments;
- (iv) providing scenario analysis of the sensitivity of cash flows to default rates, recovery rates, prepayments, interest rates and other variables as agreed with the General Partner;
- (v) monitoring the performance of investments and making divestment recommendations;

- (vi) procuring that any information which the General Partner may reasonably require relating to the investments shall be notified or reported to the General Partner whenever relevant and in any event at such intervals as the General Partner may reasonably require;
- (vii) if required by the General Partner, preparing material regarding the investments for inclusion in annual or other reports of Master Fund III (including the valuations);
- (viii) advising the General Partner in relation to all matters which it appears to the Investment Adviser would be advantageous to Master Fund III in implementing its investment policy and restrictions or otherwise making investments or disposing of investments including (without limitation) advising in relation to underwritings or syndications;
- (ix) regularly reviewing Master Fund III's investment policy;
- (x) attending board meetings (as spectators only notwithstanding any requirements of the roles of officers or directors of the Investment Adviser in their personal capacities) of the General Partner as required;
- (xi) advising the General Partner on procuring accounting, financial reporting, cash management and other related services of Master Fund III (such services to be carried out by the Administrator, custodian, cash management and other related services of Master Fund III);
- (xii) advising the General Partner on engaging employees, independent agents, lawyers, accountants, custodians, paying and collecting agents and financial and other advisers in relation to the affairs of Master Fund III; and
- (xiii) providing such other advice as the General Partner may reasonably request.

The MFIII Investment Advisory Agreement is for a term corresponding to the term of Master Fund III or until the General Partner or any of its associates cease to act as the General Partner of Master Fund III, unless terminated earlier by the insolvency, bankruptcy, dissolution or liquidation of the Investment Adviser, or if the Investment Adviser commits gross negligence, wilful misconduct, bad faith, reckless disregard or material breach of its obligations under the MFIII Investment Advisory Agreement, or the Investment Adviser ceases to be authorised for the purposes of FSMA or no longer has the permissions required of it for the purposes of carrying out its obligations under the MFIII Investment Advisory Agreement.

The Investment Adviser will not, in the absence of any matter resulting in its criminal conviction, or its bad faith, fraud, gross negligence, bankruptcy, wilful misconduct or reckless disregard for or material breach of its obligations and duties under the MFIII Investment Advisory Agreement, be liable to the General Partner, Master Fund III or its Limited Partners arising from or in connection with its provision of services under the MFIII Investment Advisory Agreement. In addition, the General Partner has agreed to indemnify (out of its own assets) the Investment Adviser and its associates, director, officers, shareholders, partners, agents, consultants and employees (in addition to the indemnity under the MFIII Partnership Agreement) against all or any actions, proceedings, claims, costs, demands, expenses, damages, and liabilities (other than those resulting from bad faith, fraud, gross negligence or wilful misconduct, reckless disregard for or material breach of its obligations and duties) arising out of the performance of the Investment Adviser's duties pursuant to the MFIII Investment Advisory Agreement.

The General Partner shall in each year pay to the Investment Adviser as compensation for its services an advisory fee in an amount agreed between the General Partner and the Investment Adviser from time to time. Master Fund III shall pay the reasonable out of pocket expenses of the Investment Adviser in accordance with the MFIII Partnership Agreement.

## **9 Key individuals at Fair Oaks Capital**

A list of the senior members of Fair Oaks Capital's investment team and non-investment team and their brief biographies are set out in Part 2 of this document.

## **10 MFIII Advisory Committee**

The MFIII Advisory Committee shall be comprised of representatives of the Limited Partners of Master Fund III selected by the General Partner. The MFIII Advisory Committee will provide advice and counsel to the General Partner in connection with matters related to Master Fund III as requested by the General Partner and will be required to approve certain matters. The Company



has the right to appoint one member to the MFIII Advisory Committee throughout the life of Master Fund III. For so long as the Company holds more than 50 per cent. of the Total Commitments, it will have the right to appoint a majority of members of the MFIII Advisory Committee.

The General Partner is required to consult with the MFIII Advisory Committee prior to investing in any Investment which is managed or advised by the General Partner, the Investment Adviser or an Affiliate.

## **11 Investment opportunity and process**

The General Partner believes that diversified portfolios of secured bank loans continues to provide a very attractive risk-return profile when financed with well-structured long-term financing. The General Partner continues to believe that the key to successful investment in secured bank loans is an understanding of, and focus on, the credit quality of the underlying corporate borrowers. To this end, portfolio financing structures (such as CLOs) need to be managed efficiently and effectively in order to enhance returns without introducing any mark-to-market or other non-credit risks. The performance of Master Fund III will therefore be driven primarily by the level of defaults and losses in the portfolio rather than by any market value volatility.

The General Partner continues to believe that high-yielding, floating rate, senior secured bank loans offer significant value versus other credit assets within fixed income markets in the current market environment. Senior secured bank loan's senior position in the capital structure and the resulting higher historical recovery rates in case of default (an average of 73 per cent. for term loans versus an average of 47 per cent. for senior unsecured bonds versus an average of 28 per cent. for subordinated bonds in the period 1987-2020) have historically supported tighter yields for bank loans than for high yield bonds.

The General Partner continues to believe that the target returns to be achieved from investments in portfolios of secured bank loans can be enhanced by the judicious use of long-term, non-mark-to-market financing structures such as CLOs.

CLO financing or similar alternative financing structures should match asset and liability maturities. A typical senior secured loan has an average life of 2 to 4 years while CLOs liabilities typically have a maturity of over 11 to 12 years. As a result, and because they are not mark-to-market financings, CLOs are not forced to sell assets or post margin in market downturns. In summary, CLOs are similar to banks but without the downside risks of short-term financing. Additional benefits of using CLO financing to invest in secured bank loans include the increased diversity of a larger underlying asset base and upside from financing optionality.

The General Partner believes that the CLO financing levels currently available to CLO equity investors are compelling. After widening significantly in early 2020, AAA CLO primary spreads have tightened to levels close to the post-2008 tightness experienced in 2018.

Fair Oaks Capital has also identified what it believes may be a unique opportunity in the European CLO market. In particular, Fair Oaks Capital believes that, by originating European CLOs, it would be able to provide Master Fund III with the opportunity to invest in CLOs with what Fair Oaks Capital considers may offer a more attractive credit and return profile than CLOs otherwise available in the European market.

Master Fund III seeks to manage risk and maximise returns on its investments through the following investment process:

- Early involvement in transactions to influence portfolio selection, deal structuring and manager selection.
- Thorough and fundamental credit analysis of underlying corporate borrowers in order to select the right portfolios for investment.
- Detailed analysis and negotiation of transaction structure and documentation in order to seek to maximise returns and optionality.
- Preference for control investments in order to seek to maximise upside from optionality (for example, optimal refinancing of portfolios).
- Negotiation of fees from arrangers and CLO managers based on facilitation of transactions.

- Regular monitoring and management of both underlying corporate borrowers and investment vehicles.
- Active management of transactions through constructive engagement with managers and optimal management of financing structures to maximise returns.

New investments will be assessed based on their risk-return profile following extensive analysis of the underlying borrowers and the financing structure. The key criteria are:

- Strong credit profile of underlying borrowers.
- Attractive projected return across modelled scenarios.
- Attractive risk profile, namely, strong resilience to stress scenarios such as increase in the default rate.
- Opportunity to extract incremental return through the generation of, early involvement in and/or facilitation of transactions.
- Ability to maximise return upside through optionality of control position in investment and/or flexible financing terms.
- Minimal exposure to market price fluctuations, namely, long-term financing structure without any mark-to-market triggers.
- Minimal exposure to interest rate risk, namely, focus on floating-rate loans and matched floating-rate financing.

Master Fund III's liquidity terms are intended to match the expected maturity of Master Fund III's investments. As such, the General Partner believes that the maturity of Master Fund III would reflect appropriately the underlying liquidity of Master Fund III's assets.

The following include some of the key aspects relating to Master Fund III:

- **Investment Approach** – The General Partner intends to take an active approach to investing in loan portfolios, taking control positions and becoming involved in deal origination and structuring, in addition to active ongoing optimisation. The General Partner believes this approach has the potential to deliver enhanced returns for investors. Not only is Master Fund III designed to benefit from advantages of an active investment approach but the General Partner and the Investment Adviser have been founded and developed with the expertise and dedicated resources in credit analysis and structuring to deliver the strategy.
- **Investment Policy** – Master Fund III will benefit from a structure and investment policy tailored to the current market opportunity and the significant changes that have occurred in the industry and regulatory environments in recent years.
- **Fixed Maturity** – Master Fund III has a fixed maturity which matches the profile of the assets and gives investors visibility on when they can realise their investment. The fixed maturity is designed to seek to limit the potential for the Shares to trade at a discount to NAV in times of general market stress (however there is no guarantee that this will indeed be the case).
- **Fee Structure** – Master Fund III has a competitive fee structure and, importantly, a back-ended incentive fee structure based on cash returned to Limited Partners rather than annual or semi-annual Master Fund III NAV calculations.

## **12 Distributions policy**

Master Fund III seeks to make distributions of income to its Limited Partners on a quarterly basis (or more frequently at the discretion of the General Partner) with the aim of distributing all net income from Investments each year. It is currently intended that distributions will be made quarterly.

The General Partner is not permitted to cause Master Fund III to make a distribution if Master Fund III does not have sufficient cash available to make the distribution or if the distribution would leave Master Fund III with insufficient funds to meet its expenses (including the MFIII Management Fee) in the current accounting period or otherwise render Master Fund III insolvent.

All proceeds from the realisation of investments are distributed to Master Fund III's Partners or retained to cover the expenses of Master Fund III or retained for the purposes of reinvestment (in the case of reinvestment, this will be restricted after the Commitment Period of Master Fund III so

that it only applies to follow-on Investments (i.e. investments made for the purpose of protecting or enhancing an existing Investment) not exceeding an amount equal to 15 per cent. of Total Commitments) or, where Master Fund III acts as originator to a CLO for European risk retention purposes, investments in corporate loans where a simultaneous forward purchase agreement is entered with that CLO issuer in respect of the sale of the same loans.

All income and proceeds from realisations of investments that are available for distribution (after payment of expenses and liabilities of Master Fund III) shall be allocated to Master Fund III's Limited Partners in accordance with their respective shares in the profits of Master Fund III and applied in the following manner (and references to the Limited Partner below shall only apply to the MFIII Founder Partner if and to the extent it has made a Commitment):

- (a) first, 100 per cent. to the General Partner until it has been paid the MFIII Management Fee;
- (b) second, to repay the Limited Partner's Outstanding Loan;
- (c) third, to the Limited Partner until the Limited Partner has reached its preferred return threshold (being an amount equivalent to an IRR of 7 per cent. on the Outstanding Loan of such Limited Partner); and
- (d) fourth, (i) 100 per cent to the Limited Partner in respect of capital and income proceeds arising from its investment in Master Fund II that were not reinvested in Master Fund III; and (ii) 85 per cent to the Limited Partner and 15 per cent. to the MFIII Founder Partner.

At the end of the life of Master Fund III any assets remaining will be distributed. The General Partner anticipates the distribution being made in cash. The General Partner may, in its discretion, distribute all or any of Master Fund III's assets in specie upon termination of Master Fund III. The Company will be entitled to require the General Partner (or, where appropriate, the liquidating trustee of Master Fund III) to continue to hold title to such assets, at the Company's cost, solely for the benefit of the Company and use reasonable efforts to sell such assets on the Company's behalf on terms acceptable to the Company. For the avoidance of doubt the distribution shall be deemed to have been made at the time of the proposed in specie distribution.

### **13 Expenses of Master Fund III**

Other than certain initial costs and expenses of Master Fund III which will be borne by the Company (these include the Commission application fee and costs relating to the registration of Master Fund III and the MFIII Founder Partner and administrative launch costs), Master Fund III is responsible for all expenses, direct or indirect, incurred in relation to the administration, business, and operation of Master Fund III, the General Partner and MFIII Founder Partner including, without limitation, costs of printing and circulating reports and notices, all introduction and similar fees, abort costs, legal fees, directors' fees, administrators', auditors' and valuers' fees, registration fees, accounting expenses (including any expenses associated with the preparation of the Master Fund III's financial statements and tax returns), fees and expenses of holding any meetings of Master Fund III or the MFIII Advisory Committee, any costs associated with compliance and advice in relation to compliance with risk retention requirements, the EU/UK AIFMD, ATAD, CRS, MDR, FATCA, any tax information arrangements and the EC Directive on Markets in Financial Instruments repealing Directive 2004/39/EC and the Regulation on Markets in Financial Instruments, EU Sustainable Finance Disclosure Regulation, fees and expenses relating to the marketing of interests and Master Fund III (including the costs of any depositaries, representatives, local agents, ombudsmen, private placement registrations) and reasonable and attributable out-of-pocket expenses of placement agents, brokers and intermediaries (but excluding commissions payable to placement agents, brokers and intermediaries which shall be borne by the General Partner or its associates), fees and expenses incurred in relation to any custodian or nominee of the assets of Master Fund III and the MFIII Advisory Committee, fees and expenses relating to the admission of investors, establishment and ongoing fees and expenses of any conduit entity, external consultants' fees, legal and industry research costs, advertising costs, bank charges, rating agencies, information services, independent price vendors, costs of meetings of Investors, insurance costs, borrowing costs, hedging costs, extraordinary expenses (such as litigation), costs of structuring, establishing, operating and liquidating any investment holding company, including costs of any type as relate to or are incurred by such an investment holding company, costs of any restructuring of Master Fund III or its investments, taxes, duties, fees and governmental charges incurred by Master Fund III and all stamp duties, costs associated with the liquidation of Master Fund III and fees of lawyers,

accountants, auditors, valuers and any external consultants arising in respect of identifying, evaluating, negotiating, acquiring, holding, monitoring, protecting and realising investments provided that Master Fund III shall not be responsible for disbursements in respect of (a) overheads of the General Partner properly payable by the General Partner from the Priority Profit Share (as referred to in the MFIII Partnership Agreement) including remuneration and expenses paid to its employees, rent and utilities expenditure; or (b) expenses recovered from companies or other entities in which Master Fund III has made (or proposes to make) an investment.

The expenses, direct or indirect, incurred in relation to the General Partner shall be fairly allocated between the entities for which it acts as general partner.

#### **14 Fees of the General Partner**

The General Partner is entitled to the MFIII Management Fee monthly in arrear during the term of Master Fund III, starting on the MFIII Initial Closing Date. The MFIII Management Fee will be equal to 1.5 per cent. per annum of Master Fund III NAV (as reduced by an amount equal to the value of any outstanding Master Fund II Interests held by Master Fund III) (and *pro rata* in respect of accounting periods of more or less than one year).

The General Partner may agree rebate arrangements with any Limited Partner. In particular, any Limited Partner that makes a Commitment of US\$150 million or more (which will include, for the avoidance of doubt, the Company) shall be entitled to a rebate of its share of the MFIII Management Fee such that it will pay a MFIII Management Fee of 1 per cent. per annum of its share of Master Fund III NAV.

#### **15 Carried Interest payable to the MFIII Founder Partner**

The MFIII Founder Partner will be entitled to a carried interest equal to 15 per cent. of cash available to be distributed (including after payment of expenses and management fees) after Limited Partners have received a Preferred Return. The calculation of the Preferred Return threshold (as described above) is based solely on distributions and not on NAV calculations so Master Fund III will not pay any carried interest until its investors have realised the amounts drawn down for investments and their Preferred Returns.

#### **16 Fees of the Investment Adviser**

The General Partner shall in each year pay to the Investment Adviser as compensation for its services an advisory fee in an amount agreed between the General Partner and the Investment Adviser from time to time.

#### **17 Other activities**

The terms of the MFIII Partnership Agreement provide that the functions and duties which the General Partner undertakes on behalf of Master Fund III shall not be exclusive and the General Partner and the Investment Adviser may perform similar functions and duties for others and, without limitation, may act as a general partner, manager or investment adviser of other funds or engage in any other activity and retain any benefit received for so doing, provided, however, that the General Partner continues properly to manage the affairs of Master Fund III.

#### **18 Key man**

If at any time until the end of the Commitment Period both of Miguel Ramos Fuentenebro and Roger Coyle (or any replacements approved by the MFIII Advisory Committee) cease to be active members or officers of the General Partner, the Investment Adviser or their associates then, if decided by the MFIII Advisory Committee, Master Fund III shall not make any new investments (except those already committed to).

#### **19 Custodian**

In respect of Master Fund III, the Custodian will provide safekeeping services in respect of such certificates and other documents as may represent investments in loans and CLOs in accordance with Master Fund III's investment policy.

## **20 Valuation of Master Fund III and Master Fund III NAV calculations**

The Administrator's unaudited valuation of Master Fund III is calculated as at the close of business on the last business day of every month by the Administrator and the General Partner, upon request will notify a Limited Partner by email within 10 Business Days of the end of the relevant month provided that such notification shall first be made to the Company and shall not be made to the other Limited Partners until the earlier of: (i) the Company having released its Net Asset Value per Share through the Regulatory Information Service; and (ii) 24 hours having passed since such notification to the Company (provided that such 24 hours shall only run during the 24 hours of a Business Day).

Investments that are traded or dealt on an organised market or exchange are valued by reference to their quoted market mid-price as at the close of trading on the relevant dealing day. The quoted market price used is based on the last traded market price.

Investments that are not traded or dealt on an organised market or exchange will be valued by the General Partner. For Investments that are not CLO securities, the General Partner will consider use of a third-party pricing service. Whereas for CLO securities, the General Partner, advised by the Investment Adviser, will either use a third party pricing service or may use certain modelling assumptions to determine a valuation.

The value of other assets held within Master Fund II's Portfolio is determined as follows:

- derivative instruments will be valued at fair value based on observable market inputs wherever possible; and
- cash or near cash will be held at par.

The calculation of Master Fund III NAV will only be suspended in circumstances where the underlying data necessary to value the investments of Master Fund III cannot readily, or without undue expenditure, be obtained. Details of any suspension in making such calculations will be announced through a Regulatory Information Service as soon as practicable.

## **21 Corporate governance**

The General Partner is licensed under the POI Law, entitling it to carry on controlled investment business in or from within the Bailiwick of Guernsey. The licence relates to the restricted activities of promotion, subscription, registration, dealing, management, administration and advising. The General Partner is responsible for the management of Master Fund III's portfolio (as well as Master Fund II's portfolio). The General Partner is subject to the GFSC Code which applies to entities which hold a licence from the Commission under certain regulatory laws or which are registered or authorised as collective investment schemes. The Commission has received an assurance statement from the General Partner confirming that the principals of the General Partner have considered the effectiveness of their corporate governance practices and are satisfied with their degree of compliance with the principles set out in the GFSC Code.

## **22 Conflicts of interest**

Conflicts of interest may arise between some or all of the Directors, the Company, Fair Oaks Capital, Master Fund II, Master Fund III and the General Partner and certain of the directors, members and officers of each. However, as at the date of this document, except as stated below, there are no material relationships between the Directors and these parties, nor any potential or actual conflicts of interest between any duties owed to the Company by the Directors and their private interests or other duties.

Certain principals of the Investment Adviser (such as Miguel Ramos Fuentenebro and Roger Coyle) are also shareholders of the General Partner and limited partners of Master Fund II, MFII Founder Partner and MFIII Founder Partner.

Fair Oaks Capital, its affiliates and its principals (including Miguel Ramos Fuentenebro and Roger Coyle) and the General Partner hold Shares in the Company. The General Partner holds 1,103,685 2017 Shares in the Company. Miguel Ramos Fuentenebro holds 1,428,430 2017 Shares in the Company. Roger Coyle holds 413,454 2017 Shares in the Company. Fair Oaks Capital holds 122,062 2017 Shares in the Company.

The General Partner acts as general partner to Master Fund II (and an associated entity), Master Fund III, MFII Founder Partner and MFIII Founder Partner. The Investment Adviser acts as investment adviser to the Company, Master Fund II and Master Fund III.

In respect of any Placees under the Placing Programme who are introduced to Numis or Liberum by Fair Oaks (or its consultants), Fair Oaks (or the relevant consultant) is entitled to receive a fee payable to it by Numis or Liberum (as applicable) based on a percentage of the aggregate gross amount invested by the afore-mentioned Placees introduced by Fair Oaks (or the relevant consultant) to Numis or Liberum (as applicable).



## **PART 4**

### **THE PLACING PROGRAMME**

#### **1 Introduction**

The Placing Programme is intended to be flexible and may have a number of closing dates in order to provide the Company with the ability to issue Shares over a period of time. The Placing Programme is intended to satisfy market demand for the Shares, manage the premium rating to Net Asset Value and also to raise further money for investment in Master Fund III (in accordance with the Company's investment policy) should the Board determine that market conditions are appropriate. The maximum number of new Shares available under the Placing Programme should not be taken as an indication of the number of Shares finally to be issued.

#### **2 Background to and reasons for the Placing Programme**

- 2.1 The Company wishes to have the flexibility to issue further Shares where there appears to be reasonable demand for Shares in the market, for example if the Shares trade at a premium to their Net Asset Value per Share. In addition, as any Shares issued under the Placing Programme will be issued at a price not less than the prevailing cum income Net Asset Value per Share, nor more than the best offer price per Share as quoted on the London Stock Exchange at the time that the proposed issue is agreed, as determined by the Directors, an issue of Shares under the Placing Programme may be used by the Company to reduce any premium over NAV per Share at which its Shares may be trading. In determining whether to issue any new 2021 Shares other than through the C Share mechanism, the Board will give consideration to the consistency of the issue parameters with the Company's total return targets.
- 2.2 Shares will be issued pursuant to the Placing Programme when the Directors consider that it is in the best interests of Shareholders to do so and when opportunities have been identified for further investment and to address continuing demand for the Shares. In utilising its discretion under the Placing Programme and seeking such authorities in the future the Directors intend to take into account relevant factors, including the desirability of limiting the premium to Net Asset Value per Share at which the Shares trade in order to ensure that Shareholders and new investors who acquire Shares are not disadvantaged by being required to acquire additional Shares at a high premium to NAV per Share.
- 2.3 At the EGM a resolution will be proposed to seek authority for the Directors to issue the following for cash:
- (i) up to 350 million C Shares under the Placing Programme; and
  - (ii) up to such number of 2021 Shares under the Placing Programme as represents 20 per cent. of the 2021 Shares then in issue following the Effective Date,

each on a non-pre-emptive basis, subject to any issues of 2021 Shares and/or C Shares under the Placing Programme being capped at an aggregate issue value of US\$350 million, and that such power shall expire on the earlier of the annual general meeting of 2022 or on the expiry of 15 months from the passing of the resolution except that the Company may before such expiry make offers or agreements which would or might require C Shares and/or 2021 Shares or rights to subscribe for such shares in the Company to be issued after such expiry and notwithstanding such expiry the Directors may issue C Shares and/or 2021 Shares or rights to subscribe for such shares in the Company in pursuance of such offers or agreements as if the power conferred by the resolution had not expired.

Results of the EGM will be published on 16 April 2021.

If the share issue authority is exhausted before either of these dates, the Directors may seek shareholder authority to issue further Shares on a non-pre-emptive basis at one or more subsequent general meetings.

- 2.4 The Directors intend to use this authority (if obtained) when they consider that it is in the best interests of Shareholders to do so and to satisfy continuing demand for the Shares. The 2021 Shares will be issued only at prices greater than the aggregate of the prevailing Net Asset Value per 2021 Share and a premium to cover the commissions and expenses of the

issue of new 2021 Shares under the Placing and should therefore be accretive to the Net Asset Value per 2021 Share. Any new C Shares will always be issued at a price of US\$1 per C Share.

### **3 Benefits of the Placing Programme**

- 3.1 The Directors believe that the issue of Shares pursuant to the Placing Programme should yield the following principal benefits:
- 3.1.1 raise additional monies in a timely manner to enable Master Fund III to take advantage of opportunities to make further investments in accordance with the Company's investment policy;
  - 3.1.2 maintain the Company's ability to issue Shares, so as to better manage the premium at which the Shares may trade to NAV per Share;
  - 3.1.3 enhance the NAV per 2021 Share of the then-existing 2021 Shares through new share issuance at a premium to the cum income NAV per 2021 Share;
  - 3.1.4 grow the Company, thereby spreading operating costs over a larger capital base which should reduce the total expense ratio; and
  - 3.1.5 improve liquidity in the market for the 2021 Shares and C Shares.
- 3.2 The Directors have considered the potential impact of the Placing Programme on the payment of dividends to Shareholders and intend to ensure that it will not result in any material dilution of the dividends per Share that the Company may be able to pay.

### **4 The Placing Programme**

- 4.1 The Placing Programme will open on 23 April 2021 and will close on 25 March 2022 (or any earlier date on which it is fully subscribed, or an earlier date if agreed between the Company, Numis and Liberum). The maximum number of 2021 Shares to be issued pursuant to the Placing Programme is such number of 2021 Shares under the Placing Programme as represents 20 per cent. of the 2021 Shares then in issue following the Effective Date and the maximum number C Shares to be issued pursuant to the Placing Programme is 350 million, subject to any issues of 2021 Shares and/or C Shares being capped at an aggregate issue value of US\$350 million. Such Shares will, subject to the Company's decision to proceed with a Placing at any given time, be issued at the relevant Placing Price. No 2021 Shares will be issued at a discount to the Net Asset Value per 2021 Share at the time of the share issue. The Company will not issue any 2021 Shares at a discount of 10 per cent. or more to the middle market price of the 2021 Shares at the relevant time without further Shareholder approval. C Shares will always be issued at US\$1 per C Share.
- 4.2 The issue of Shares under the Placing Programme is at the discretion of the Directors. Share issues may take place at any time prior to the final closing date of 25 March 2022 (or any earlier date on which it is fully subscribed, or an earlier date if agreed between the Company, Numis and Liberum). An announcement of each share issue will be released through a Regulatory Information Service announcement, including details of the number and class of new Shares issued and the relevant Placing Price. It is anticipated that dealings in the Shares will commence three Business Days after the trade date for each Placing under the Placing Programme.
- 4.3 Whilst it is expected that all Shares issued pursuant to each Placing under the Placing Programme will be issued in uncertificated form, if any Shares are issued in certificated form it is expected that share certificates would be despatched approximately one week after Admission of the relevant Shares to trading on the SFS. No temporary documents of title will be issued.
- 4.4 The Placing Programme is not being underwritten and, as at the date of this document, the actual number of Shares to be issued pursuant to the Placing Programme is not known. The number of Shares available under the Placing Programme should not be taken as an indication of the number of Shares finally to be issued.

- 4.5 The Directors' authority to issue Shares on a non-pre-emptive basis under the Placing Programme is limited to an aggregate issue value of US\$350 million. This authority will expire on the earlier of the annual general meeting of 2022 or on the expiry of 15 months from the passing of the resolution except that the Company may before such expiry make offers or agreements which would or might require C Shares and/or 2021 Shares or rights to subscribe for such shares in the Company to be issued after such expiry and notwithstanding such expiry the Directors may issue C Shares and/or 2021 Shares or rights to subscribe for such shares in the Company in pursuance of such offers or agreements as if the power conferred by the resolution had not expired.
- 4.6 So far as the Directors are aware as at the date of this document, no Directors (or existing Shareholders) intend to make a commitment for Shares under the Placing Programme.
- 4.7 Applications will be made to the London Stock Exchange for the Shares issued pursuant to the Placing Programme to be admitted to trading on the SFS. All Shares issued pursuant to the Placing Programme will be issued conditionally on such Admission occurring. Admission is conditional, *inter alia*, on each of the 2021 Shares and/or C Shares (as applicable) as a class meeting the requirements of the London Stock Exchange regarding the distribution of such Shares to investors deemed "public". This document has, *inter alia*, been published in order to obtain Admission to trading on the SFS of any Shares issued pursuant to the Placing Programme. This will include any Shares issued under the Directors' existing authority to issue Shares on a non-pre-emptive basis after the date of this document. Should the Board wish to issue Shares in excess of the amount which it will then be authorised to issue, further authorities will be sought at an appropriate time by convening a general meeting of Shareholders for this purpose.
- 4.8 The Shares issued pursuant to the Placing Programme will rank *pari passu* with the Shares of the same class (or tranche, in the case of the C Shares) then in issue (save for any dividends or other distributions declared, made or paid on the 2021 Shares by reference to a record date prior to the issue of the relevant 2021 Shares).
- 4.9 The Placing Programme will be suspended at any time when the Company is unable to issue Shares pursuant to the Placing Programme under any statutory provision or other regulation applicable to the Company or otherwise at the Directors' discretion. The Placing Programme may resume when such conditions cease to exist.
- 4.10 Fractions of Shares will not be issued and placing consideration will be allocated accordingly.
- 4.11 Where Shares are issued, the total assets of the Company will increase by that number of Shares multiplied by the relevant Placing Price. It is not expected that there will be any material impact on the earnings and Net Asset Value per Share, as the net proceeds resulting from any Placing are expected to be invested in Master Fund III (in accordance with the investment objective and policy of the Company) and each relevant Placing Price per 2021 Share is expected to represent a modest premium to the then prevailing Net Asset Value per 2021 Share.
- 4.12 Commitments under a Placing, once made, may not be withdrawn without the consent of the Directors.
- 4.13 The terms and conditions which shall apply to any subscription for Shares pursuant to the Placing Programme procured by Numis and/or Liberum are contained in Part 6 of this document.

## 5 Conditions

- 5.1 Each Placing of Shares pursuant to the Placing Programme is conditional on:
  - (a) the passing of the resolutions to be proposed at the EGM and the admission of the 2021 Shares as re-designated from 2017 Shares pursuant to the Reorganisation Proposal to trading on the SFS having occurred;
  - (b) Shareholder authority for the issue of Shares and disapplication of pre-emption rights in respect of the relevant issue being in place;

- (c) the Placing Price in respect of the 2021 Shares being not less than the prevailing cum income Net Asset Value per 2021 Share and a premium to cover the commissions and expenses of the issue of new 2021 Shares under the Placing Programme, and in respect of the C Shares being US\$1 per C Share;
- (d) Admission of the Shares;
- (e) the Company having a placing agreement or equivalent arrangement in place at the time of such issue;
- (f) Numis and/or Liberum (as applicable) confirming to the Placees their allocation of Shares; and
- (g) a Placee agrees to become a member of the Company and agreeing to subscribe for those Shares allocated to it by Numis or Liberum (as applicable) at the applicable Placing Price.

5.2 In circumstances in which these conditions are not fully met, the relevant issue of Shares pursuant to the Placing Programme will not take place.

## **6 The Placing Agreement**

A summary of the Placing Agreement is set out in paragraph 15.1 of part 7 of this document.

## **7 Calculation of the Placing Price**

### *7.1 Placing Price per 2021 Share*

The Placing Price for each 2021 Share issued pursuant to the Placing Programme will be calculated by reference to the estimated cum income Net Asset Value of each existing 2021 Share together with a premium intended to cover the direct costs and expenses of the placing pursuant to the Placing Programme (including, without limitation, any placing commissions). The Directors will determine the Placing Price in respect of each Placing of 2021 Shares on the basis described above so as to cover the costs and expenses of each Placing of 2021 Shares under the Placing Programme and thereby avoid any dilution of the Net Asset Value of the existing 2021 Shares held by existing holders of 2021 Shares.

### *7.2 Placing Price per C Share*

The Placing Price for C Shares issued pursuant to the Placing Programme will be US\$1 per C Share.

## **8 Dilution**

### *Dilution of voting control*

If 350 million Shares were issued pursuant to the Placing Programme, there would be a dilution of approximately 45 per cent. in existing Shareholders' voting control of the Company. Further, on a conversion of any tranche of C Shares, any dilution (in terms of voting control of the Company) resulting from the issue of such tranche of C Shares may increase or decrease depending on the conversion ratio used for such conversion.

### *Dilution to net asset value*

As no 2021 Shares will be issued under the Placing Programme at a price which is less than the aggregate of the Net Asset Value per 2021 Share and a premium to cover the commissions and expenses of the issue of new 2021 Shares under the Placing Programme, there will be no dilution in the Net Asset Value per 2021 Share as a result of the issue of any 2021 Shares under the Placing Programme.

The basis on which a tranche of C Shares would convert into New 2021 Shares is such that the number of New 2021 Shares to which holders of C Shares of that tranche would become entitled will reflect the relative net asset values per share of the assets attributable to that relevant tranche of C Shares and the 2021 Shares. As a result, the Net Asset Value per 2021 Share can be expected to be unchanged by the issue and conversion of any C Shares.

The Net Asset Value of the existing 2021 Shares (and C Shares of any existing tranche(s), if any are in existence at the relevant time) would not be diluted by the expenses of an issue of (a further tranche of) C Shares, which would be borne by holders of such tranche of C Shares only.

## **9 Scaling Back and Allocation**

In the event of oversubscription of any Placing under the Placing Programme, applications under such Placing will be scaled back at the Company's discretion, in consultation with Numis and Liberum. The basis of allocation of Shares shall be determined by the Company in consultation with Numis and Liberum.

The Company reserves the right to decline in whole or in part any application for Shares pursuant to any Placing under the Placing Programme. Accordingly, applicants for Shares may, in certain circumstances, not be issued the number of Shares for which they have applied.

Monies received in respect of unsuccessful applications (or to the extent scaled back) will be returned without interest at the risk of the applicant to the bank account from which the money was received.

## **10 CREST**

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument. The Articles permit the holding of Shares under the CREST system. The Company has applied for the 2021 Shares to be admitted to CREST with effect from 22 April 2021. Accordingly, settlement of transactions in the 2021 Shares following 22 April 2021 may take place within the CREST system if any Shareholder so wishes.

The Company will apply for Shares to be issued under the Placing Programme to be admitted to CREST with effect from the relevant date of Admission. Accordingly, settlement of transactions in Shares following such relevant date of Admission may take place within the CREST system if any Shareholder so wishes.

## **11 Costs and expenses of the Placing Programme**

Please refer to the provisions set out in paragraph 22 of Part 1 of this document.

## **12 Use of Proceeds**

The aggregate Net Proceeds of the Placing Programme will depend on the number of Shares issued pursuant to it and the relevant Placing Price in respect of each Placing under the Placing Programme. The Directors intend to use the net proceeds of each Placing, after costs, to invest in Master Fund III.

## **13 Overseas investors**

Potential investors in any territory other than the United Kingdom should refer to the notices set out in the section entitled "Important Information" of this document. The Company reserves the right to treat as invalid any agreement to subscribe for C Shares and/or 2021 Shares under the Placing Programme if it appears to the Company or its agents to have been entered into in a manner that may involve a breach of the securities legislation of any jurisdiction.

## **14 Money laundering**

- 14.1 Pursuant to anti-money laundering laws and regulations with which the Company must comply in the UK or Guernsey, the Company and its agents, the Administrator, the Registrar, Numis and Liberum may require evidence in connection with any application for Shares, including further identification of the applicant(s) before any Shares are issued.
- 14.2 The Company and its agents, the Administrator, the Registrar, Numis and Liberum reserve the right to request such information as is necessary to verify the identity of the prospective Shareholder and (if any) the underlying prospective beneficial owner of the Shares. In the event of delay or failure by the prospective Shareholder to produce any information required for verification purposes, the Directors, in consultation with Numis, may refuse to accept a subscription for Shares.



## **15 Subscriber warranties**

- 15.1 Each subscriber of Shares in the Placing Programme and each subsequent investor in the Shares will be deemed to have represented, warranted, acknowledged and agreed to the representations, warranties, acknowledgments and agreements set out in paragraph 4 of Part 6 of this document.
- 15.2 The Company, Numis, Liberum and their respective directors, officers, agents, employees, advisers and others will rely upon the truth and accuracy of the foregoing representations, warranties, acknowledgments and agreements.
- 15.3 If any of the representations, warranties, acknowledgments or agreements made by the investor are no longer accurate or have not been complied with, the investor will immediately notify the Company.

## **16 Profile of a typical investor**

An investment in the C Shares and/or 2021 Shares pursuant to the Placing Programme is suitable for professional and professionally advised and knowledgeable investors who understand, or who have been advised of, the potential risk from investing in companies admitted to the Specialist Fund Segment and are seeking attractive risk-adjusted returns, principally through income distributions, by investing in accordance with Master Fund II's and Master Fund III's investment policy, and who are capable themselves of evaluating the merits and risks of an investment in the Company whose investment policy mirrors that of Master Fund II and Master Fund III, and who have sufficient resources both to invest in potentially illiquid securities and to be able to bear any losses (which may equal the whole amount invested) that may result from the investment.

## PART 5

### FINANCIAL AND OTHER INFORMATION

#### PART A: THE COMPANY

##### 1 Statutory accounts for the financial periods ended 31 December 2017, 2018 and 2019 and interim reports and unaudited condensed financial statements of the Company for the six month periods ended 30 June 2019 and 2020

The Company has published audited financial statements for the three financial years ended 31 December 2017, 2018 and 2019 (the “**Annual Reports**”), in respect of which the Company's auditors, KPMG Channel Islands Limited of Gategny Court, Gategny Esplanade, St Peter Port, Guernsey GY1 1WR, have made an unqualified report.

The financial statements in each of the Annual Reports have been prepared in accordance in accordance with the Companies Law and IFRS.

KPMG Channel Islands Limited are chartered accountants and a member of the Institute of Chartered Accountants in England and Wales.

In addition, the Company has published interim reports and unaudited condensed financial statements for the six month periods ended 30 June 2019 (unaudited) and 30 June 2020 (unaudited) (the “**Interim Reports**”).

The Company has not published any new financial information since the interim report and unaudited condensed financial statements of the Company for the six month period ended 30 June 2020.

##### 1.1 *Historical financial information*

Each of the Annual Reports and Interim Reports, which have been incorporated into this document by reference, and which are available online at <https://www.fairoaksincome.com>, and available for inspection at the address referred to in paragraph 22 of Part 7 of this Prospectus, include, on the pages specified in the table below, the following information:

	<i>Annual report and accounts for the period ended 31 December 2017 (audited)</i>	<i>Annual report and accounts for the period ended 31 December 2018 (audited)</i>	<i>Annual report and accounts for the period ended 31 December 2019 (audited)</i>	<i>Interim report and unaudited condensed financial statements of the Company for the 6 month period ended 30 June 2019 (unaudited)</i>	<i>Interim report and unaudited condensed financial statements of the Company for the 6 month period ended 30 June 2020 (unaudited)</i>
<b>Nature of information</b>	<b>Page No(s)</b>	<b>Page No(s)</b>	<b>Page No(s)</b>	<b>Page No(s)</b>	<b>Page No(s)</b>
Chairman's statement	3-5	3-6	3-5	2-4	2-4
Investment Adviser's Report	6-9	7-12	6-10	5-12	5-11
Strategic Report	n/a	n/a	11-12	n/a	n/a
Directors' Report	12-16	15-19	15-18	n/a	n/a
Independent Auditors'/ Independent Review Report	26-29	29-32	30-33	14	13
Statement of comprehensive income	30	33	34	15	14
Statement of changes in equity	31	34	35	16	15
Statement of Financial Position	32	35	36	17	16
Statement of Cash Flows	33	36	37	18	17
Accounting policies	34-38	37-42	38-43	19-20	18-19
Notes to the financial statements	34-62	37-66	38-69	19-36	18-35

Those parts of the Annual Reports and Interim Reports which are not being incorporated into this document by reference are either not relevant for investors or are covered elsewhere in this document.

## 1.2 Selected financial information

Selected key figures which summarise the Company's financial condition in respect of the financial periods ended 31 December 2017, 2018 and 2019 (audited) and for the six month periods ended 30 June 2019 (unaudited) and 30 June 2020 (unaudited), which have been extracted without material adjustment from the Annual Reports and Interim Reports, are set out in the following table. The information has been extracted without material adjustment from the Annual Reports and Interim Reports:

	As at or for the period ended 31 December 2017 (audited)	As at or for the period ended 31 December 2018 (audited)	As at or for the period ended 31 December 2019 (audited)	As at or for the 6 month period ended 30 June 2019 (unaudited)	As at or for the 6 month period ended 30 June 2020 (unaudited)
	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s
Non-current assets	382,307	385,162	336,722	369,082	228,444
Current assets	83,687	30,506	6,527	4,957	1,504
Creditors	(44)	(49)	(90)	(37)	(115)
Net assets	465,950	415,619	343,159	374,002	229,834
Net Asset Value per 2017 Share	US\$1.0016	US\$0.8742	US\$0.7580	US\$0.8250	US\$0.4914
Basic and diluted earnings per 2017 Share	US\$0.1330	US\$0.0052	US\$(0.0046)	US\$0.0204	US\$(0.2388)
Total revenue / (loss)	50,937	5,284	(1,428)	9,412	(108,892)
Total comprehensive income / (loss)	48,419	4,230	(2,269)	9,031	(109,395)
Total operating expenses	(2,519)	(1,055)	(841)	(381)	(503)

## 1.3 Operating and financial review

The Annual Reports and Interim Reports included, on the pages specified 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 each of those periods.

	Annual report and accounts for the period ended 31 December 2017 (audited)	Annual report and accounts for the period ended 31 December 2018 (audited)	Annual report and accounts for the period ended 31 December 2020 (audited)	Interim report and unaudited condensed financial statements of the Company for the 6 month period ended 30 June 2019 (unaudited)	Interim report and unaudited condensed financial statements of the Company for the 6 month period ended 30 June 2020 (unaudited)
Nature of information	Page No(s)	Page No(s)	Page No(s)	Page No(s)	Page No(s)
Chairman's Statement	3-5	3-6	3-5	2-4	2-4
Investment Adviser's Report	6-9	7-12	6-10	5-12	5-11
Financial highlights	1	1	1	Contents page	Contents page

## 1.4 Availability of annual reports and accounts and interim reports and accounts for inspection

Copies of the published annual reports and audited accounts for the Company for the financial periods ended 31 December 2017, 2018 and 2019 (audited) and the unaudited interim reports and unaudited condensed financial statements of the Company for the six month periods ended 30 June 2019 (unaudited) and 30 June 2020 (unaudited) are available for inspection at the address set out in paragraph 22 of Part 7 of this document.

## 2 Capitalisation and indebtedness

As at 29 January 2021, the Company had no guaranteed, secured, unguaranteed or unsecured debt and no direct or indirect indebtedness.

The following table, extracted without material adjustment from the Company's internal accounting records, shows the Company's unaudited indebtedness (distinguishing between guaranteed and unguaranteed, secured and unsecured indebtedness) as at 29 January 2021.

	29 January 2021 (unaudited) US\$
<b>Total Current Debt</b>	—
Guaranteed	—
Secured	—
Unguaranteed/unsecured	—
<b>Total Non-Current Debt</b>	—
Guaranteed	—
Secured	—
Unguaranteed/unsecured	—
<b>Shareholders' Equity</b>	
Share Capital	444,495,037
Legal reserves (Share premium and special reserve)	—
Other reserves (excluding retained earnings)	—

The following table, extracted without material adjustment from the Company's accounting records, shows the Company's unaudited net indebtedness as at 29 January 2021.

	29 January 2021 (unaudited) US\$
A Cash	2,390,215
B Cash equivalent	—
C Trading securities	—
D Liquidity (A+B+C)	2,390,215
E Current financial receivable	—
F Current bank debt	—
G Current portion of non-current debt	—
H Other current financial debt	—
I Current financial debt (F+G+H)	—
J Net current financial indebtedness/(Liquidity) (I-E-D)	(2,390,215)
K Non-current bank loans	—
L Bonds issued	—
M Other non-current loans	—
N Non-current financial indebtedness (K+L+M)	—
O Net financial indebtedness/(Liquidity) (J+N)	(2,390,215)

As at the Latest Practicable Date, there has been no material change in the capitalisation or indebtedness of the Company since 29 January 2021.

## 3 No significant change

As at the date of this Prospectus, save in respect of:

- (a) in July 2020, in light of the continued performance and the increased resilience of Master Fund II's investment, the Board resumed the payment of dividends, on a quarterly basis and at a variable rate; and
- (b) net assets of the Company have increased significantly, due to the increasing NAV of Master Fund II,

there has been no significant change in the financial position of the Company since 30 June 2020, being the last date on which the Company has published financial information.

#### **4 Working capital**

The Company is of the opinion that the working capital available to it is sufficient for its present requirements, that is for at least 12 months from the date of this document.

#### **5 Related party transactions**

Save as disclosed in:

- note 8 on pages 62-65 of the Company's annual report and accounts for the period ended 31 December 2019;
- note 8 on pages 60-62 of the Company's annual report and accounts for the period ended 31 December 2018;
- note 8 on pages 55-57 of the Company's annual report and accounts for the period ended 31 December 2017;
- note 6 on pages 29-32 of the Company's unaudited interim reports and unaudited condensed financial statements for the six month period ended 30 June 2020; and
- note 6 on pages 31-33 of the Company's unaudited interim reports and unaudited condensed financial statements for the six month period ended 30 June 2019,

which are incorporated by reference into this document, and save for the Contribution Agreement entered into between the Company, Master Fund II (acting by the General Partner), Master Fund III (acting by the General Partner) and the General Partner, the details of which are set out in paragraph 6 of Part 1 of this document, the Company has not entered into any related party transaction at any time during the periods covered by the historical financial information set out in Part 5 of this document and up to the date of this document.

### **PART B: MASTER FUND II**

#### **1 Annual reports and audited financial statements for the financial periods ended 31 December 2017, 2018 and 2019**

Master Fund II's auditors, KPMG Channel Islands Limited of Gategny Court, Gategny Esplanade, St Peter Port, Guernsey GY1 1WR, have given unqualified reports in respect of the financial statements contained in the annual report and audited financial statements of Master Fund II for the financial periods ended 31 December 2017, 2018 and 2019 (the "**MFII Annual Reports**"). The MFII Annual reports are reproduced in full respectively in Appendices 1, 2 and 3 to this document.

The MFII Annual reports have been properly prepared in accordance with the Companies Law and in accordance with the requirements of the amended and restated Limited Partnership Agreement dated 9 March 2017.

Master Fund II has not published any new financial information since the audited annual report and financial statements for the financial year ended 31 December 2019. Master Fund II does not prepare interim financial information as there is no requirement under the MFII Partnership Agreement or under the Partnership Law to prepare interim financial information in respect of Master Fund II. **Therefore, interim financial information relating to Master Fund II covering the six months to 30 June 2020 is not available (and which would otherwise be required to be included in the Prospectus) and therefore a reduced level of disclosure has been provided in relation to Master Fund II.**

Where the annual report and financial statements of Master Fund II make reference to other documents, such other documents are not incorporated into, and do not form part of, this document. Prospective investors should read the following information contained in this Part 5. The financial information in this Part 5 has been extracted without material adjustment from Master Fund II's published annual reports and financial statements.



## 2 Published annual reports and audited financial statements for the financial periods ended 31 December 2017, 2018 and 2019

### 2.1 Historical financial information

The MFII Annual reports are reproduced in full respectively in Appendices 1, 2 and 3 to this document.

### 2.2 Selected financial information

Selected key figures which summarise Master Fund II's financial condition in respect of the financial periods ended 31 December 2017, 2018 and 2019 (audited) are set out in the following table. The information has been extracted without material adjustment from the MFII Annual Reports:

	<i>As at or for the period from incorporation to 31 December 2017 (audited)</i>	<i>As at or for the period ended 31 December 2018 (audited)</i>	<i>As at or for the period ended 31 December 2019 (audited)</i>
	<b>US\$000s</b>	<b>US\$000s</b>	<b>US\$000s</b>
Non-current assets	339,639	370,133	285,421
Current assets	30,542	10,273	16,232
Creditors	(25,422)	(13,400)	(3,054)
Net assets	344,760	367,006	298,599
Total partnership interests (net assets)	344,760	367,006	298,599
Total revenue / (loss)	34,125	4,990	1,531
Total comprehensive income / (loss)	32,996	2,874	(1,553)
Total operating expenses	(1,129)	(2,116)	(3,083)

As at 26 February 2021, Master Fund II had unaudited net assets of US\$416,001,639 (US\$305,271,334 representing the Company's limited partnership interests in Master Fund II).

### 2.3 Operating and financial review

The MFII Annual Reports included, on the pages specified below, descriptions of Master Fund II's financial condition (in both capital and revenue terms), details of Master Fund II's investment activity and portfolio exposure; and changes in its financial condition for each of those periods.

	<i>Annual report and accounts for the period from incorporation to 31 December 2017 (audited)</i>	<i>Annual report and accounts for the period ended 31 December 2018 (audited)</i>	<i>Annual report and accounts for the period ended 31 December 2019 (audited)</i>
<b>Nature of information</b>	<b>Page No(s)</b>	<b>Page No(s)</b>	<b>Page No(s)</b>
Statement of General Partner's responsibilities	7	9	10
Investment Adviser's Report	2 – 6	2 – 8	2 – 9
Portfolio Statement (unaudited)	35	44	45

## 3 No significant change

As at the date of this Prospectus, save in respect of:

- a subscription by a new limited partner into Master Fund II in the sum of US\$65,000,000 in April 2020; and
- the NAV of Master Fund II has also increased (in addition to US\$65,000,000 new subscription) as a result of positive performance of the underlying CLO investments,

there has been no significant change in the financial position of Master Fund II since 31 December 2019, being the last date on which Master Fund II has published financial information.

#### **4 Related party transactions**

Save as disclosed in:

- note 8 on pages 42 to 43 of Master Fund II's annual report and accounts for the period ended 31 December 2019;
- note 8 on page 41 of Master Fund II's annual report and accounts for the period ended 31 December 2018; and
- note 8 on pages 33 of Master Fund II's annual report and accounts for the period ended 31 December 2017,

and save for the Contribution Agreement entered into between the Company, Master Fund II (acting by the General Partner), Master Fund III (acting by the General Partner) and the General Partner, the details of which are set out in paragraph 6 of Part 1 of this document, Master Fund II has not entered into any related party transaction at any time during the periods covered by the historical financial information set out in Part 5 of this document and up to the date of this document.

#### **PART C: MASTER FUND III**

Since its date of establishment, Master Fund III has not commenced operations and no financial statements have been made up as at the date of this document.

As at the date of this Prospectus, there has been no significant change in the financial position of Master Fund III since 10 March 2021, the date of its establishment.

## PART 6

### TERMS AND CONDITIONS OF ANY PLACING UNDER THE PLACING PROGRAMME

#### 1 Introduction

- 1.1 Participation in the any Placing under the Placing Programme is only available to persons who are invited to participate by Numis and/or Liberum. These terms and conditions apply to persons making an offer to subscribe for Placed Shares under any Placing under the Placing Programme. Each Placee which confirms its agreement to Numis and Liberum to subscribe for Shares under the Placing Programme will be bound by these terms and conditions and will be deemed to have accepted them.
- 1.2 The Company, Numis and/or Liberum may require any Placee to agree to such further terms and/or conditions and/or give such additional warranties and/or representations as it/they (in its/their absolute discretion) see fit. The commitment to acquire new Shares under a Placing may be agreed orally with Numis and/or Liberum as agent for the Company and be further evidenced in a contract note ("**Contract Note**") or placing confirmation ("**Placing Confirmation**"), or Numis and/or Liberum may require any such Placee to execute a separate placing letter (a "**Placing Letter**").

#### 2 Agreement to subscribe for Shares

2.1 Conditional on:

- (i) the Admission of Shares under the Placing Programme occurring not later than 8.00 a.m. on such dates as the Company, Numis and Liberum may agree prior to the closing of each Placing under the Placing Programme, not being later than 25 March 2022;
- (ii) the resolutions proposed at the EGM being passed and the admission of the 2021 Shares as re-designated from 2017 Shares pursuant to the Reorganisation Proposal to trading on the SFS having occurred;
- (iii) to the extent required by Article 23(1) of the UK Prospectus Regulation, a valid supplementary prospectus being published by the Company;
- (iv) the Placing Agreement becoming otherwise unconditional in all respects and not having been terminated on or before the Admission of the relevant Shares;
- (v) the Contribution Agreement being entered into and not being terminated in accordance with its terms;
- (vi) Numis and/or Liberum (as applicable) confirming to the Placees their respective allocation of Shares; and
- (vii) a Placee agrees to become a member of the Company and agreeing to subscribe for those Shares allocated to it by Numis or Liberum (as applicable) at the applicable Placing Price.

To the fullest extent permitted by law, each Placee acknowledges and agrees that it will not be entitled to exercise any remedy of rescission at any time. This does not affect any other rights the Placee may have.

- 2.2 Applications under each Placing under the Placing Programme must be for a minimum subscription amount of US\$1,000.

#### 3 Payment for Shares

- 3.1 Each Placee undertakes to pay the applicable Placing Price for the Shares issued to the Placee in the manner and by the time directed by Numis and/or Liberum.
- 3.2 In the event of any failure by any Placee to pay as so directed and/or by the time required by Numis and/or Liberum, the relevant Placee shall be deemed hereby to have irrevocably and unconditionally appointed Numis and/or Liberum or any nominee of Numis and/or Liberum as its agent to use its reasonable endeavours to sell (in one or more transactions) any or all of

the Shares in respect of which payment shall not have been made as directed, and to indemnify Numis and/or Liberum and their/its respective affiliates on demand in respect of any liability for stamp duty and/or stamp duty reserve tax or any other liability whatsoever arising in respect of any such sale or sales.

- 3.3 A sale of all or any of such Shares shall not release the relevant Placee from the obligation to make such payment for relevant Shares to the extent that Numis and/or Liberum or their/its nominee have/has failed to sell such Shares at a consideration which, after deduction of the expenses of such sale and payment of stamp duty and/or stamp duty reserve tax as aforementioned, exceeds the applicable Placing Price per Share.

#### **4 Representations and warranties**

By agreeing to subscribe for Shares, each Placee which enters into a commitment to subscribe for Shares (for the purposes of this Part 6, a “**Placing Commitment**”) will (for itself and for any person(s) procured by it to subscribe for Shares and any nominee(s) for any such person(s)) be deemed to acknowledge, understand, undertake, represent and warrant to each of the Company, the Registrar, Numis and Liberum that:

- 4.1 in agreeing to subscribe for Shares under the Placing Programme, it is relying solely on this document and any supplementary prospectus issued by the Company prior to Admission of the relevant Shares and not on any other information given, or representation or statement made at any time, by any person concerning the Company, the Shares, and/or the Placing Programme, including without limitation any key information document relating to the Shares. It agrees that none of the Company, Numis, Liberum, the Investment Adviser or the Registrar, nor any of their respective officers, agents, employees or affiliates, will have any liability for any other information or representation. It irrevocably and unconditionally waives any rights it may have against any such persons in respect of any other information or representation;
- 4.2 if the laws of any territory or jurisdiction outside the United Kingdom are applicable to its agreement to subscribe for Shares under the Placing Programme, it warrants that it has complied with all such laws, obtained all governmental and other consents which may be required, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with its application in any such territory or jurisdiction for the Shares and that it has not taken any action or omitted to take any action which will or might reasonably be expected to result in the Company, Numis, Liberum, the Investment Adviser or the Registrar or any of their respective officers, agents, employees or affiliates acting in breach of the regulatory or legal requirements, directly or indirectly, of any territory or jurisdiction outside the United Kingdom in connection with the Placing Programme or its acceptance of participation in the Placing Programme;
- 4.3 it has carefully read and understands this Prospectus and any supplementary prospectus issued by the Company prior to Admission of the relevant Shares in its entirety and acknowledges that it is acquiring Shares on the terms and subject to the conditions set out in this Part 6 of this document and, as applicable, in the Contract Note, Placing Confirmation or Placing Letter referred to in paragraph 1.2 above of this Part 6 of this document and the articles of incorporation as are in force at the relevant date of Admission of the relevant Shares;
- 4.4 it has not relied on Numis, Liberum or any person affiliated with Numis or Liberum in connection with any investigation of the accuracy of any information contained in this document;
- 4.5 it acknowledges that the content of this document is exclusively the responsibility of the Company, its Directors, the General Partner and the GP Directors and that neither Numis nor Liberum, nor any person acting on its/their behalf nor any of its/their affiliates is/are responsible for or shall have any liability for any information, representation or statement contained in this document or any information published by or on behalf of the Company and will not be liable for any decision by a Placee to participate in the Placing Programme based on any information, representation or statement contained in this document or otherwise;

- 4.6 no person is authorised in connection with the Placing Programme to give any information or make any representation other than as contained in this Prospectus and any supplementary prospectus issued by the Company prior to Admission of the relevant Shares and, if given or made, any information or representation must not be relied upon as having been authorised by Numis, Liberum, the Investment Adviser or the Company;
- 4.7 it is not applying as, nor is it applying as nominee or agent for, a person who is or may be liable to notify and account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in section 67, 70, 93 or 96 of the Finance Act 1986 (depository receipts and clearance services);
- 4.8 the price per Share is fixed at the Placing Price and is payable to Numis or Liberum on behalf of the Company in accordance with the terms of this Part 6 of this document and, as applicable, in the Contract Note, the Placing Confirmation or the Placing Letter (if any);
- 4.9 it has the funds available to pay in full for the Shares for which it has agreed to subscribe pursuant to its Placing Commitment and that it will pay the total subscription in accordance with the terms set out in this Part 6 of this document and, as applicable, as set out in the Contract Note or Placing Confirmation and the Placing Letter (if any) on the due time and date;
- 4.10 its commitment to acquire Shares under the Placing will be agreed orally or in writing (which shall include by email) with Numis or with Liberum as agent for the Company and that a Contract Note or Placing confirmation will be issued by Numis or by Liberum as soon as possible thereafter. That oral or written confirmation will constitute an irrevocable, legally binding commitment upon that person (who at that point will become a Placee) in favour of the Company and Numis or Liberum (as applicable) to subscribe for the number of Shares allocated to it and comprising its Placing Commitment at the Placing Price on the terms and conditions set out in this Part 6 of this document and, as applicable, in the Contract Note or Placing Confirmation and the Placing Letter (if any) and in accordance with the articles of incorporation as are in force as at the date of Admission of the relevant Shares. Except with the consent of Numis or Liberum (as applicable), such oral or written commitment will not be capable of variation or revocation after the time at which it is made;
- 4.11 its allocation of Shares under the Placing will be evidenced by Contract Note or Placing Confirmation or by execution of a Placing Letter, as applicable, confirming: (i) the number of Shares that such Placee has agreed to acquire; (ii) the aggregate amount that such Placee will be required to pay for such Shares; and (iii) settlement instructions to pay Numis or Liberum as agent for the Company. The terms of this Part 6 of this document will be deemed to be incorporated into that Contract Note or Placing Confirmation or Placing Letter (as applicable);
- 4.12 settlement of transactions in the Shares following the relevant Admission will take place in CREST but Numis and Liberum each reserves the right in its absolute discretion to require settlement in certificated form if, in its opinion, delivery or settlement is not possible or practicable within the CREST system within the timescales previously notified to the Placee (whether orally, in the Contract Note or Placing Confirmation, in the Placing Letter or otherwise) or would not be consistent with the regulatory requirements in any Placee's jurisdiction;
- 4.13 it accepts that none of the Shares have been or will be registered under the laws of any Restricted Jurisdiction. Accordingly, the Shares may not be offered, sold, issued or delivered, directly or indirectly, within any Restricted Jurisdiction unless an exemption from any registration requirement is available;
- 4.14 it: (i) is entitled to subscribe for the Shares under the laws of all relevant jurisdictions; (ii) has fully observed the laws of all relevant jurisdictions; (iii) has the requisite capacity and authority and is entitled to enter into and perform its obligations as a subscriber for Shares and will honour such obligations; and (iv) has obtained all necessary consents and authorities to enable it to enter into the transactions contemplated hereby and to perform its obligations in relation thereto;



- 4.15 if it is within the United Kingdom, it is a person who falls within Articles 49(2)(a) to (d) or 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or it is a person to whom the Placed Shares may otherwise lawfully be offered under such Order and/or is a person who is a “professional client” or an “eligible counterparty” within the meaning of Chapter 3 of the FCA’s Conduct of Business Sourcebook or, if it is receiving the offer in circumstances under which the laws or regulations of a jurisdiction other than the United Kingdom would apply, it is a person to whom the Placed Shares may be lawfully offered under that other jurisdiction’s laws and regulations;
- 4.16 if it is a resident in the EEA: (a) it is a qualified investor within the meaning of Article 2(e) of the EU Prospectus Regulation; and (b) if that Relevant State has implemented the EU AIFMD, that it is a person to whom the Placed Shares may lawfully be marketed under the EU AIFMD or under the applicable implementing legislation (if any) of that Relevant State;
- 4.17 in the case of any Placed Shares acquired by a Placee as a financial intermediary within the EEA as that term is used in Article 5(1) of the EU Prospectus Regulation or within the United Kingdom as that term is used in the UK Prospectus Regulation: (a) the Placed Shares acquired by it in the Placing have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State or the United Kingdom other than qualified investors, as that term is defined in the EU Prospectus Regulation or the UK Prospectus Regulation (as applicable), or in circumstances in which the prior consent of Numis and/or Liberum has been given to the offer or resale; or (b) where Placed Shares have been acquired by it on behalf of persons in any Relevant Member State or the United Kingdom other than qualified investors, the offer of those Placed Shares to it is not treated under the EU Prospectus Regulation or the UK Prospectus Regulation (as applicable) as having been made to such persons;
- 4.18 if it is outside the United Kingdom, neither this Prospectus (and any supplementary prospectus issued by the Company) nor any other offering, marketing or other material in connection with the Placing Programme (for the purposes of this Part 6 of this document, each a “**Placing Document**”) constitutes an invitation, offer or promotion to, or arrangement with, it or any person for whom it is procuring to subscribe for Shares pursuant to the Placing Programme unless, in the relevant territory, such offer, invitation, promotion or other course of conduct could lawfully be made to it or such person and such documents or materials could lawfully be provided to it or such person and Shares could lawfully be distributed to and subscribed and held by it or such person without compliance with any unfulfilled approval, registration or other regulatory or legal requirements;
- 4.19 it does not have a registered address in, and is not a citizen, resident or national of, any Restricted Jurisdiction or any other jurisdiction in which it is unlawful to make or accept an offer of the Shares and it is not acting on a non-discretionary basis for any such person;
- 4.20 it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) relating to Shares in circumstances in which section 21(1) of FSMA does not require approval of the communication by an authorised person and acknowledges and agrees that no Placing Document is being issued by either Numis or Liberum in its capacity as an authorised person under section 21 of FSMA and the Placing Documents may not therefore be subject to the controls which would apply if the Placing Documents were made or approved as a financial promotion by an authorised person;
- 4.21 if the Placee is a natural person, such Placee is not under the age of majority (18 years of age in the United Kingdom) on the date of such Placee’s agreement to subscribe for Shares under the Placing Programme and will not be any such person on the date any such agreement to subscribe under the Placing Programme is accepted;
- 4.22 it has not, directly or indirectly, distributed, forwarded, transferred or otherwise transmitted this Prospectus (and any supplementary prospectus issued by the Company) or any other Placing Document to any persons within the United States or to any US Persons, nor will it do any of the foregoing;

- 4.23 it has complied with and will comply with all applicable provisions of the Criminal Justice Act 1993 and the UK version of regulation (EU) No.596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse as it forms part of the domestic law of the United Kingdom by virtue of the EUWA ("**UK MAR**") with respect to anything done by it in relation to the Placing and/or the Placed Shares;
- 4.24 no action has been taken or will be taken in any jurisdiction other than the United Kingdom that would permit a public offering of the Shares or possession of this Prospectus (and any supplementary prospectus issued by the Company), in any country or jurisdiction where action for that purpose is required;
- 4.25 it has not offered or sold and will not offer or sell any Shares to the public in any Relevant Member State except in circumstances falling within Article 1(4) of the EU Prospectus Regulation which do not result in any requirement for the publication of a prospectus;
- 4.26 none of Numis, Liberum nor any of their respective affiliates nor any person acting on its/their behalf is/are making any recommendations to it, advising it regarding the suitability of any transactions it may enter into in connection with the Placing Programme or providing any advice in relation to the Placing Programme and participation in the Placing Programme is on the basis that it is not and will not be a client of Numis or Liberum and that neither Numis nor Liberum has any duties or responsibilities to it for providing the protections afforded to its clients or for providing advice in relation to the Placing Programme nor in respect of any representations, warranties, undertaking or indemnities contained in the Placing Letter or otherwise required to be given by it in connection with its application under the Placing Programme;
- 4.27 that, save in the event of fraud on the part of Numis or Liberum, none of Numis or Liberum, their respective ultimate holding companies nor any direct or indirect subsidiary undertakings of such holding companies, nor any of their respective directors, members, partners, officers and employees shall be responsible or liable to a Placee or any of its clients for any matter arising out of Numis' role or Liberum's role as broker and financial adviser or otherwise in connection with the Placing Programme and that where any such responsibility or liability nevertheless arises as a matter of law the Placee and, if relevant, its clients, will immediately and irrevocably waive any claim against any of such persons which the Placee or any of its clients may have in respect thereof;
- 4.28 it acknowledges that where it is subscribing for Shares for one or more managed, discretionary or advisory accounts, it is authorised in writing for each such account: (i) to subscribe for the Shares for each such account; (ii) to make on each such account's behalf the undertakings, acknowledgements, representations, warranties and agreements set out in this Prospectus; and (iii) to receive on behalf of each such account any documentation relating to the Placing Programme in the form provided by the Company, Numis and/or Liberum. It agrees that the provision of this paragraph shall survive any resale of the Shares by or on behalf of any such account;
- 4.29 if it is acting as a "distributor" (for the purposes of the MiFID II Product Governance Requirements):
- 4.29.1 it acknowledges that the Target Market Assessment undertaken by Numis and Liberum does not constitute: (a) an assessment of suitability or appropriateness for the purposes of UK MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Shares and each distributor is responsible for undertaking its own target market assessment in respect of the Shares and determining appropriate distribution channels;
- 4.29.2 notwithstanding any Target Market Assessment undertaken by Numis and Liberum, it confirms that it has satisfied itself as to the appropriate knowledge, experience, financial situation, risk tolerance and objectives and needs of the investors to whom it plans to distribute the Shares and that it has considered the compatibility of the risk/reward profile of such Shares with the end target market;
- 4.29.3 it acknowledges that the price of the Shares may decline and investors could lose all or part of their investment; the Shares offer no guaranteed income and no capital protection; and an investment in the Shares is compatible only with investors who do

not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom; and

- 4.29.4 it agrees that if so required by Numis and/or Liberum, it shall provide aggregate summary information on sales of the Shares as contemplated under rule 3.3.30(R) of the Product Intervention and Product Governance Sourcebook contained in the FCA's Handbook of Rules and Guidance (the "**PROD Sourcebook**") and information on the reviews carried out under rules 3.3.26(R) to 3.3.28(R) of the PROD Sourcebook;
- 4.30 it irrevocably appoints any Director of the Company, any director or duly authorised employee or agent of Numis and/or any director or duly authorised employee or agent of Liberum to be its agent and on its behalf (without any obligation or duty to do so), to sign, execute and deliver any documents and do all acts, matters and things as may be necessary for, or incidental to, its subscription for all or any of the Shares for which it has given a commitment under the Placing Programme, in the event of its own failure to do so;
- 4.31 it accepts that if the Placing Programme does not proceed or the relevant conditions to the Placing Agreement are not satisfied (or waived), or the Shares for which valid applications are received and accepted are not admitted to trading on the SFS for any reason whatsoever, then none of Numis, Liberum, the Investment Adviser or the Company, nor persons controlling, controlled by or under common control with any of them nor any of their respective employees, agents, officers, members, stockholders, partners or representatives, shall have any liability whatsoever to it or any other person;
- 4.32 it has complied with and will at all times comply with its obligations in connection with money laundering and terrorist financing under the Proceeds of Crime Act 2002, the Terrorism Act 2000, and the Money Laundering Regulations and any other applicable law concerning the prevention of money laundering and, if it is making payment on behalf of a third party, that: (i) satisfactory evidence has been obtained and recorded by it to verify the identity of the third party; and (ii) arrangements have been entered into with the third party to obtain from the third party copies of any identification and verification data immediately on request as required by the Money Laundering Regulations and, in each case, agrees that pending satisfaction of such obligations, definitive certificates (or allocation under the CREST system) in respect of the Shares comprising the Placee's allocation may be retained at the discretion of Numis and/or Liberum;
- 4.33 it acknowledges and agrees that, due to anti-money laundering requirements and the countering of terrorist financing requirements, any of Numis, Liberum, the Administrator, the Registrar and/or the Company may require proof of identity and verification of the source of the payment before the application can be processed and that, in the event of delay or failure by the applicant to produce any information required for verification purposes, any of Numis, Liberum, the Administrator, the Registrar and/or the Company may refuse to accept the application and the subscription moneys relating thereto. It holds harmless and will indemnify each of Numis, Liberum, the Administrator, the Registrar and the Company against any liability, loss or cost ensuing due to the failure to process such application, if such information as has been required has not been provided by it or has not been provided on a timely basis;
- 4.34 it acknowledges and agrees that information provided by it to the Company the Administrator or the Registrar will be stored on the computer systems of the Company, the Administrator, the Registrar, other service providers and/or their affiliates and/or their respective delegates and/or manually. It acknowledges and agrees that for the purposes of the DP Law and other relevant data protection legislation which may be applicable, the Company, Administrator and/or the Registrar and/or other service providers and/or their respective delegates may, in order to fulfil their duties and/or to comply with regulatory requirements or legal obligation, use such personal data for the following reasons and are required to specify the purposes for which they will hold personal data. The Company, the Administrator, the Registrar, other service providers and their respective delegates will only use such information for the purposes set out below (collectively, the "**Purposes**"), and as set out in the Privacy Notice being to:

- (a) process its personal data (including sensitive personal data) as required by or in connection with its holding of Shares, the operation of the Company including processing personal data in connection with verifying the Placee's identity to comply with statutory and regulatory requirements, credit and anti-money laundering and sanctions checks on it and including disclosure to credit reference agencies in order to carry out such checks and comply with legal obligations;
  - (b) communicate with it as necessary in connection with its affairs and generally in connection with its holding of Shares;
  - (c) provide personal data to such third parties (including any other service providers) as the Company, the Administrator, the Registrar, other service providers and their respective delegates may consider necessary in connection with its affairs and generally in connection with its holding of Shares or as the DP Law may require, including to third parties outside the Bailiwick of Guernsey and the EEA; and
  - (d) without limitation, provide such personal data to the Company, Numis, Liberum or the auditors of the Company and their respective associates for processing, notwithstanding that any such party may be outside Guernsey;
  - (e) process its personal data for their internal administrative purposes;
  - (f) disclose the personal data to competent authorities, Courts and bodies as required by law or requested or to affiliates for internal investigations and reporting;
  - (g) provide its personal data to a third party service provider to provide administrative, transfer, document storage, record keeping and other functions including but not limited to processing its personal data in connection with the Company and in particular the collection, processing, storage and transfer of "customer due diligence" and source of funds information and verification data under applicable anti-money laundering and terrorist financing laws and regulations, of which such services may be performed outside the Bailiwick of Guernsey or the EEA;
  - (h) either through themselves (or through a third party e.g. credit reference agency) process certain information about it or its directors, officers and employees and its beneficial owners (if applicable) in order to carry out anti-money laundering checks and related actions which they consider appropriate to meet any legal obligations imposed on each of them relating to the prevention of fraud, money laundering, terrorist financing, bribery, corruption, tax evasion and to prevent the provision of financial and other services to persons who may be subject to economic or trade sanctions, on an on-going basis, in accordance with relevant anti-money laundering procedures;
  - (i) to monitor and record calls and electronic communications for investigation and fraud prevention purposes, for crime detection, prevention, investigation and prosecution, and to enforce or defend each of them and their affiliates' rights, themselves or through third parties to whom they delegate such responsibilities or rights in order to comply with a legal obligation imposed on each of them;
  - (j) to monitor and record calls for quality, business analysis, training and related purposes in order to pursue the legitimate interests of each of them to improve its service delivery,
- and which are necessary to comply with a legal obligation and/or which are necessary for the legitimate interests of the Administrator and/or Registrar and/or other service providers and/or their respective affiliates and delegates as indicated above;

4.35 in providing the Registrar with information, it hereby represents and warrants to the Registrar that it has been notified of and/or been provided with a copy of the Company's Privacy Notice. For the purposes of this document, "data subject", "personal data" and "sensitive personal data" shall have the meanings attributed to them in the DP Law and it acknowledges that its personal data will be retained as long as is required for the Company, the Administrator, the Registrar, other service providers and their respective delegates and affiliates to perform their duties and obligation in connection with its interest in the Company and/or Shares and/or as require by the DP Law;

- 4.36 Numis, Liberum, the Investment Adviser and the Company are entitled to exercise any of their rights under the Placing Agreement (including, without limitation, rights of termination) or any other right in their absolute discretion without any liability whatsoever to them;
- 4.37 the representations, undertakings and warranties contained in this document (and, as applicable, in the Contract Note or Placing Confirmation and the Placing Letter (if any)) are irrevocable. It acknowledges that Numis, Liberum and the Company and their respective affiliates will rely upon the truth and accuracy of the foregoing representations, warranties and undertakings and it agrees that if any of the representations, warranties or undertakings made or deemed to have been made by it in respect of its subscription of the Shares are no longer accurate, it shall promptly notify Numis, Liberum and the Company;
- 4.38 where it or any person acting on behalf of it is dealing with Numis or Liberum, any money held in an account with Numis on behalf of it or in an account with Liberum on behalf of it and/or any person acting on behalf of it will not be treated as client money within the meaning of the relevant rules and regulations of the FCA which therefore will not require Numis or Liberum to segregate such money, as that money will be held by Numis or Liberum under a banking relationship and not as trustee;
- 4.39 any of its clients, whether or not identified to Numis or by Liberum, will remain its sole responsibility and will not become clients of Numis or Liberum for the purposes of the rules of the FCA or for the purposes of any other statutory or regulatory provision;
- 4.40 it accepts that the allocation of Shares shall be determined by Numis and Liberum, as Numis and Liberum shall agree but after consultation with the Company, and that Numis and Liberum, in their absolute discretion but after consultation with the Company, may scale down any commitments under the Placing Programme for this purpose on such basis as Numis and Liberum may determine;
- 4.41 time shall be of the essence as regards its obligations to settle payment for the Shares and to comply with its other obligations under the Placing Programme;
- 4.42 authorises Numis or Liberum to deduct from the total amount subscribed under the Placing Programme the aggregation commission (if any) (calculated at the rate agreed with the Placee) payable on the number of Shares allocated under a Placing;
- 4.43 in the event that a supplementary prospectus is required to be produced pursuant to Article 23(1) of the UK Prospectus Regulation and in the event that it chooses to exercise any right of withdrawal pursuant to Article 23(2) of the UK Prospectus Regulation, such Placee will immediately re-subscribe for the Shares previously comprising its Placing Commitment; and
- 4.44 the commitment to subscribe for Shares on the terms set out in this Part 6 and, as applicable, in the Contract Note or Placing Confirmation and the Placing Letter will continue notwithstanding any amendment that may in the future be made to the terms of the Placing Programme and/or any Placing thereunder and that it will have no right to be consulted or require that its consent be obtained with respect to the Company's conduct of the Placing Programme and/or any Placing thereunder.

The Company, the Investment Adviser, the Registrar, Numis and Liberum will rely upon the truth and accuracy of the foregoing representations, warranties, undertakings and acknowledgements. You agree to indemnify and hold each of the Company, the Investment Adviser, the Registrar, Numis and Liberum and their respective affiliates harmless from any and all costs, claims, liabilities and expenses (including legal fees and expenses) arising out of any breach of the representations, warranties, undertakings, agreements and acknowledgements in this Part 6.

## **5 United States purchase and transfer restrictions**

- 5.1 By participating in a Placing under the Placing Programme, each Placee acknowledges and agrees that it will (for itself and any person(s) procured by it to subscribe for Shares and any nominee(s) for any such person(s)) be further deemed to acknowledge, understand, undertake, represent and warrant to each of the Company, Numis and Liberum that:
- (a) it is not a US Person, is not located within the United States, is acquiring the Shares in an offshore transaction meeting the requirements of Regulation S and is not acquiring the Shares for the account or benefit of a US Person;



- (b) the Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States and may not be offered, sold, resold, pledged, transferred or delivered, directly or indirectly, into or within the United States or to, or for the account or benefit of, US Persons absent registration or except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any State or other jurisdiction of the United States and in a manner which would not require the Company to register under the US Investment Company Act;
- (c) the Company has not registered, and does not intend to register, as an investment company under the US Investment Company Act and that the Company has put in place restrictions for transactions not involving any public offering in the United States, and to ensure that the Company is not and will not be required to register under the US Investment Company Act;
- (d) it will not be entitled to the benefits of the US Investment Company Act;
- (e) unless the Company expressly consents in writing otherwise, no portion of the assets used to purchase, and no portion of the assets used to hold, the Shares or any beneficial interest therein constitutes or will constitute the assets of: (i) an “employee benefit plan” as defined in Section 3(3) of ERISA that is subject to Title I of ERISA; (ii) a “plan” as defined in Section 4975 of the Internal Revenue Code, including an individual retirement account or other arrangement that is subject to Section 4975 of the Tax Code; or (iii) an entity which is deemed to hold the assets of any of the foregoing types of plans, accounts or arrangements that is subject to Title I of ERISA or Section 4975 of the Tax Code. In addition, if a Placee is a governmental, church, non-US or other employee benefit plan that is subject to any federal, state, local or non-US law that is substantially similar to the provisions of Title I of ERISA or Section 4975 of the Tax Code, its purchase, holding, and disposition of the Shares must not constitute or result in a non-exempt violation of any such substantially similar law;
- (f) that if any Shares offered and sold pursuant to Regulation S are issued in certificated form, then such certificates evidencing ownership will contain a legend substantially to the following effect unless otherwise determined by the Company in accordance with applicable law:

**“FAIR OAKS INCOME LIMITED (THE “COMPANY”) HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE “INVESTMENT COMPANY ACT”). IN ADDITION, THE SECURITIES OF THE COMPANY REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. ACCORDINGLY, THIS SECURITY MAY NOT BE OFFERED, SOLD, PLEDGED, EXERCISED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT OR AN EXEMPTION THEREFROM AND UNDER CIRCUMSTANCES WHICH WILL NOT REQUIRE THE COMPANY TO REGISTER UNDER THE INVESTMENT COMPANY ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS.”**

- (g) if in the future the Placee decides to offer, sell, transfer, assign or otherwise dispose of its Shares, it will do so only in compliance with an exemption from the registration requirements of the Securities Act and under circumstances which will not require the Company to register under the US Investment Company Act. It acknowledges that any sale, transfer, assignment, pledge or other disposal made other than in compliance with such laws and the above stated restrictions will be subject to the compulsory transfer provisions as provided in the Articles;



- (h) it is purchasing the Shares for its own account or for one or more investment accounts for which it is acting as a fiduciary or agent, in each case for investment only, and not with a view to or for sale or other transfer in connection with any distribution of the Shares in any manner that would violate the Securities Act, the US Investment Company Act or any other applicable securities laws;
  - (i) it acknowledges that the Company reserves the right to make inquiries of any holder of the Shares or interests therein at any time as to such person's status under the US federal securities laws and to require any such person that has not satisfied the Company that holding by such person will not violate or require registration under the US securities laws to transfer such Shares or interests in accordance with the Articles;
  - (j) it is entitled to acquire the Shares under the laws of all relevant jurisdictions which apply to it, it has fully observed all such laws and obtained all governmental and other consents which may be required thereunder and complied with all necessary formalities and it has paid all issue, transfer or other taxes due in connection with its acceptance in any jurisdiction of the Shares and that it has not taken any action, or omitted to take any action, which may result in the Company, Numis or their respective directors, officers, agents, employees and advisers being in breach of the laws of any jurisdiction in connection with any Placing or its acceptance of participation in the Placing Programme;
  - (k) it has received, carefully read and understands this Prospectus (and any supplementary prospectus issued by the Company), and has not, directly or indirectly, distributed, forwarded, transferred or otherwise transmitted this Prospectus (and any supplementary prospectus issued by the Company) or any other presentation or offering materials concerning the Shares to or within the United States or to any US Persons, nor will it do any of the foregoing;
  - (l) it understands that this Prospectus (and any supplementary prospectus issued by the Company) has been prepared according to the disclosure requirements of the United Kingdom, which are different from those of the United States; and
  - (m) if it is acquiring any Shares as a fiduciary or agent for one or more accounts, the investor has sole investment discretion with respect to each such account and full power and authority to make such foregoing representations, warranties, acknowledgements and agreements on behalf of each such account.
- 5.2 The representations, warranties, acknowledgements or agreements contained in this Prospectus are irrevocable and it acknowledges that the Company, Numis, Liberum and the Registrar and their respective directors, officers, agents, employees, advisers and others will rely upon the truth and accuracy of the foregoing representations, warranties, acknowledgements and agreements.
- 5.3 If any of the representations, warranties, acknowledgements or agreements made by the Placee are no longer accurate or have not been complied with, the Placee will immediately notify the Company, Numis and Liberum.

## **6 Supply and disclosure of information**

- 6.1 If Numis, Liberum, the Registrar, the Investment Adviser or the Company or any of their agents request any information about a Placee's agreement to subscribe for Shares under the Placing Programme, such Placee must promptly disclose it to them and ensure that such information is complete and accurate in all respects.

## **7 Automatic Exchange of Information**

- 7.1 Each Placee acknowledges and understands the Company, Master Fund II and Master Fund III are required to comply with FATCA, the CRS and any similar legislation and that the Company, Master Fund II and Master Fund III will follow the extensive reporting and/or withholding requirements of FATCA, the CRS and any similar legislation. The Placee agrees to promptly furnish any information and documents which the Company, the General Partner, the Administrator or the Registrar may from time to time request, including but not limited to information required under FATCA, the CRS and any similar legislation.

## **8 Non United Kingdom investors**

- 8.1 If the Placee is outside the United Kingdom, neither the Prospectus nor any other offering, marketing or other material in connection with any Placing constitutes an invitation, offer or promotion to, or arrangement with, it or any person whom it is procuring to subscribe for Placed Shares pursuant to the Placing unless, in the relevant territory, such offer, invitation or other course of conduct could lawfully be made to it or such person and such documents or materials could lawfully be provided to it or such person and Placed Shares could lawfully be distributed to and subscribed and held by it or such person without compliance with any unfulfilled approval, registration or other regulatory or legal requirements.
- 8.2 None of the Placed Shares has been or will be registered under the laws of the United States, Australia, Canada, Japan or the Republic of South Africa. Accordingly, the Placed Shares may not be offered, sold, issued or delivered, directly or indirectly, into or within any of the United States, Australia, Canada, Japan or the Republic of South Africa or to any national, resident or citizen of the United States, Australia, Canada, Japan or the Republic of South Africa unless an exemption from any registration requirement is available.
- 8.3 The Company reserves the right to treat as invalid any application for Placed Shares if it appears to the Company or its agents to have been entered into in a manner that may involve a breach of the securities legislation of any jurisdiction.

## **9 Miscellaneous**

- 9.1 The rights and remedies of Numis, Liberum, the Registrar, the Investment Adviser and the Company under these terms and conditions are in addition to any rights and remedies which would otherwise be available to each of them and the exercise or partial exercise of one will not prevent the exercise of others.
- 9.2 On application, if a Placee is an individual, that Placee may be asked to disclose in writing or orally, his nationality. If a Placee is a discretionary fund manager, that Placee may be asked to disclose in writing or orally the jurisdiction in which its funds are managed or owned. All documents provided in connection with the Placing Programme will be sent at the Placee's risk. They may be returned by post to such Placee at the address notified by such Placee.
- 9.3 Each Placee agrees to be bound by the Articles once the Shares, which the Placee has agreed to subscribe for pursuant to the Placing Programme, have been acquired by the Placee. The contract to subscribe for Shares under the Placing Programme and the appointments and authorities mentioned in this Prospectus and all disputes and claims arising out of or in connection with its subject matter or formation (including non-contractual disputes or claims) will be governed by, and construed in accordance with, the laws of England and Wales. For the exclusive benefit of Numis, Liberum, the Investment Adviser, the Company and the Registrar, each Placee irrevocably submits to the jurisdiction of the courts of England and Wales and waives any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum. This does not prevent an action being taken against a Placee in any other jurisdiction.
- 9.4 In the case of a joint agreement to subscribe for Shares under the Placing Programme, references to a "Placee" in these terms and conditions are to each of the Placees who are a party to that joint agreement and their liability is joint and several.
- 9.5 Numis, Liberum and the Company expressly reserve the right to modify the Placing Programme (including, without limitation, its timetable and settlement) at any time before allocations are determined. A Placing under the Placing Programme is subject to the satisfaction of the conditions contained in the Placing Agreement and the Placing Agreement not having been terminated prior to Admission of the Shares issued pursuant to the relevant Placing under the Placing Programme. A summary of the terms of the Placing Agreement is contained in paragraph 15.1 of Part 7 of this document.

## PART 7

### ADDITIONAL INFORMATION

#### 1 The Company

- 1.1 The Company, Fair Oaks Income Limited, was incorporated in Guernsey as a non-cellular company limited by shares with registered number 58123 on 7 March 2014. The Company is regulated by the Commission by virtue of the Company being registered with the Commission as a Registered Closed-ended Collective Investment Scheme. The principal legislation under which the Company operates (and under which the Shares have been created) is the Companies Law together with ordinances and regulations made under the Companies Law. The liability of the Company's members is limited.
- 1.2 The Company was incorporated under the name "Fair Oaks Income Fund Limited". Pursuant to a resolution of the Company duly-passed on 29 March 2017, its name was changed to its current name. Such name change was duly-registered with the Guernsey Registry.
- 1.3 The Company is domiciled in Guernsey. The registered office and principal place of business of the Company is at Sarnia House, Le Truchot, St Peter Port, Guernsey, GY1 1GR (telephone number 01481 737600). The address of the Company's website is <https://www.fairoaksincome.com>. Information on this website does not form part of the Prospectus.
- 1.4 The Company has been incorporated with an indefinite life, subject to continuation provisions enshrined in the Articles. Currently, under Article 46 of the Articles, the Company is required to convene an extraordinary general meeting in 2024 but on or before 12 June 2024 to propose to Shareholders a Continuation Resolution. If that Continuation Resolution is passed by Shareholders, a further Continuation Resolution will be proposed on the nearest Business Day falling every two years thereafter. If a Continuation Resolution is not passed, the Board shall draw up proposals for the voluntary liquidation of the Company.
- 1.5 As part of the Reorganisation Proposal, a resolution is sought at the EGM which, if passed, would amend the Articles so as to change the date by which the Continuation Resolution is to be proposed to 12 June 2028, being a date which aligns with the planned end date of Master Fund III (excluding possible extension periods of Master Fund III through extending the time period during which further persons may be admitted as Limited Partners by up to two additional consecutive one year periods at the discretion of the General Partner or Master Fund III's term ending on a later date due to it continuing to hold any investment in a CLO issuer for which it has acted as originator for risk retention purposes).
- 1.6 The Company does not have any employees.

#### 2 Master Fund II

- 2.1 Master Fund II is a limited partnership established and registered in Guernsey with registration number 2782 on 24 February 2017 under the name FOMC II LP and its name was changed to FOIF II LP on 23 March 2021. Master Fund II has a fixed life of five years until the later of (i) expiry of five years following the end of the Commitment Period; and (ii) such date on which Master Fund II ceases to hold any investment in a CLO issuer which was made during the Commitment Period and for which Master Fund II has acted as originator for risk retention purposes.
- 2.2 The principal legislation under which Master Fund II operates is the Partnership Law. Master Fund II is regulated by the Commission as a Registered Closed-ended Collective Investment Scheme and is required to comply with the RCIS Rules issued by the Commission.
- 2.3 Master Fund II is domiciled in Guernsey. The registered office and principal place of business is at Sarnia House, Le Truchot, St Peter Port, Guernsey GY1 1GR (telephone number 01481 737600).
- 2.4 Master Fund II does not have any employees.

### **3 Master Fund III**

- 3.1 Master Fund III is a limited partnership established and registered in Guernsey with registration number 3847 on 10 March 2021 under the name FOMC III LP. Master Fund III has a fixed life until the later of (i) expiry of five years following the end of the Commitment Period; and (ii) such date on which Master Fund III ceases to hold any investment in a CLO issuer which was made during the Commitment Period and for which Master Fund III has acted as originator for risk retention purposes.
- 3.2 The principal legislation under which Master Fund III operates is the Partnership Law. Master Fund III is regulated by the Commission as a Registered Closed-ended Collective Investment Scheme and is required to comply with the RCIS Rules issued by the Commission.
- 3.3 Master Fund III is domiciled in Guernsey. The registered office and principal place of business is at Sarnia House, Le Truchot, St Peter Port, Guernsey GY1 1GR (telephone number 01481 737600).
- 3.4 Master Fund III does not have any employees.

### **4 Subsidiaries**

- 4.1 The Company has no subsidiaries. Master Fund II and Master Fund III have no subsidiaries but may establish and/or use limited partnerships and other investment entities through which it may conduct its investment and other activities.
- 4.2 Please note however that, depending on the number of Shareholders whose shares are to be re-designated as 2021 Shares further to the Reorganisation Proposal, it is possible that, pursuant to the Contribution Agreement, Master Fund III will likely hold a majority of the limited partnership interests in Master Fund II.

### **5 Investment Adviser**

- 5.1 The Investment Adviser, Fair Oaks Capital Limited, is a private limited company incorporated in England and Wales on 19 October 2012 with registration number 08260598 and is authorised and regulated in the UK by the FCA with firm reference number 604090. Its registered office address is 1 Albemarle Street, London W1S 4HA. Its telephone number is +44 (0) 20 3034 0400 and its LEI is 213800T46SWNIFLIZW28. Its website is <https://fairoakscap.com>. Information on this website does not form part of the Prospectus.
- 5.2 The Investment Adviser acts as the investment adviser to the Company, Master Fund II and Master Fund III.

### **6 Custodian and MFIII Custodian**

- 6.1 The Custodian, BNP Paribas Securities Services S.C.A., Guernsey Branch, acts as custodian of the Company and Master Fund II. It is authorised and regulated by the Commission (with GFSC reference 1050252) to carry out deposit taking activity under The Banking Supervision (Bailiwick of Guernsey) Law 1994, regulated fiduciary business under The Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2000 and controlled investment activity under the Protection of Investors (Bailiwick of Guernsey) Law 1987. BNP Paribas Securities Services S.C.A. is registered in France with registered number: 552 108 011 R.C.S. and its Paris registered office is located at 3 Rue d'Antin, 75002, Paris, France. Its Guernsey branch registered business address is BNP Paribas House, St Julian's Avenue, St Peter Port, Guernsey, GY1 1WA. Its Guernsey branch telephone number is +44 (0) 1481 750800 and its LEI is 549300WCGB70D06XZS54. Its website is <https://bnpparibas.je/en/>. Information on this website does not form part of the Prospectus. BNP Paribas Securities Services S.C.A. is ultimately owned by BNP Paribas S.A.
- 6.2 MFIII Custodian, being Elavon Financial Services Designated Activity Company, acts as custodian of Master Fund III. It is authorised and regulated by the Central Bank of Ireland (with Central Bank of Ireland reference number C43558) to receive deposits or other repayable funds from the public and to grant credits for its own account, to carry on business as an electronic money institution, to act as a service provider to a fund as an administrator, trustee or management company. Elavon Financial Services Designated Activity Company is registered in Ireland with registered number 418442 and its registered (head) office in Ireland

is located at Building 8, Cherrywood Business Park, Loughlinstown, Co. Dublin, D18 W319, Ireland. Its London establishment's registered business address is 5<sup>th</sup> Floor, 125 Old Broad Street, London EC2N 1AR, United Kingdom. Its LEI is 5493008GNQHV1377MY19. Elavon Financial Services Designated Activity Company is ultimately owned by U.S. Bancorp. MFII Custodian does not have its own website.

## **7 Share Capital**

7.1 The issued share capital of the Company as at 30 June 2020 (being the last date in respect of which the Company has published financial information) was 468,378,360 2017 Shares (which includes the 650,000 shares held in treasury).

7.2 The issued share capital of the Company as at the Latest Practicable Date was 468,378,360 2017 Shares (which includes the 650,000 shares held in treasury).

7.3 The Company's issued share capital history during the last three financial years and since 31 December 2019 up to the Latest Practicable Date is as follows:

<i>(a) In the financial year ended 31 December 2017:</i>	<p>(i) number of new shares issued: C shares: 68,850,000, 2017 shares: 418,274,938</p> <p>(ii) number of redemptions of shares: 2014 shares: 264,437,287</p> <p>(iii) details of any conversions of C shares into 2017 shares: 69,414,570</p>
<i>(b) In the financial year ended 31 December 2018:</i>	<p>(i) number of new shares issued: 2017 shares: 35,073,799</p> <p>(ii) number of redemptions of shares: 2014 shares: 24,559,146</p>
<i>(c) In the financial year ended 31 December 2019:</i>	<p>(i) number of repurchases/buybacks of shares: 2017 shares: 650,000 (Treasury)</p> <p>(ii) number of redemptions of shares: 2014 shares fully redeemed: 1 April 2019: 21,942,137</p>
<i>(d) In the period from 1 January 2020 to the Latest Practicable Date:</i>	<p>(i) number of new shares issued: 2017 shares: 15,029,623</p>

7.4 At the EGM a resolution will be proposed to seek authority for the Directors to issue the following for cash:

- (i) up to 350 million C Shares under the Placing Programme; and
- (ii) up to such number of 2021 Shares under the Placing Programme as represents 20 per cent. of the 2021 Shares then in issue following the Effective Date,

each on a non-pre-emptive basis, subject to any issues of 2021 Shares and/or C Shares under the Placing Programme being capped at an aggregate issue value of US\$350 million, and that such power shall expire on the earlier of the annual general meeting of 2022 or on the expiry of 15 months from the passing of the resolution except that the Company may before such expiry make offers or agreements which would or might require C Shares and/or 2021 Shares or rights to subscribe for such shares in the Company to be issued after such expiry and notwithstanding such expiry the Directors may issue C Shares and/or 2021 Shares or rights to subscribe for such shares in the Company in pursuance of such offers or agreements as if the power conferred by the resolution had not expired. The results of the EGM will be published on 16 April 2021.

7.5 At the EGM, a resolution to approve the amendment to the Articles will be proposed, which will cater for a reorganisation of the Company's ordinary share capital (as described in Part 1 of this document). Depending on the results of the Reorganisation Proposal, each existing 2017 Share will be re-designated as a 2021 Share or a Realisation Share. The results of the Reorganisation Proposal will be published on 19 April 2021, detailing the number of 2017 Shares to be re-designated as 2021 Shares and Realisation Shares.



- 7.6 Application for those 2017 Shares to be re-designated as 2021 Shares to be admitted to trading on the SFS (under a new ISIN GG00BNNLWT35 but retaining the current TIDM, “FAIR”) will be made and it is expected that such admission will take place on 22 April 2021. The 2017 Shares to be re-designated as Realisation Shares will continue to be traded on the SFS (under the existing ISIN GG00BF00L342 and new TIDM, “FA17”).
- 7.7 Following each Admission, the Shares will be capable of being held in uncertificated form. In the case of Shares held in uncertificated form, the Articles permit the holding and transfer of Shares under CREST. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. The Directors will apply for the Shares to be admitted to CREST. The records in respect of Shares held in uncertificated form will be maintained by Euroclear UK & Ireland Limited and the Registrar.
- 7.8 It is anticipated that, where appropriate, share certificates will be despatched by first class post within approximately one week of each Admission. Temporary documents of title will not be issued. Prior to the despatch of definitive share certificates, transfers will be certified against the register.
- 7.9 The legislation under which the Realisation Shares, 2021 Shares and C Shares have been and/or will be created is the Companies Law.
- 7.10 The Shares will be issued in accordance with the Articles conditional upon the resolutions proposed at the EGM being passed, the admission of the 2021 Shares as re-designated from 2017 Shares pursuant to the Reorganisation Proposal to trading on the SFS occurring and each Admission.
- 7.11 The Shares in issue are, and the 2021 and C Shares to be issued pursuant to the Placing Programme will be, denominated in US\$.
- 7.12 As at the date of this document:
- 7.12.1 the Company holds 650,000 treasury shares;
  - 7.12.2 other than the founder share issued upon incorporation, no Shares have been issued otherwise than as fully paid;
  - 7.12.3 the Company has no outstanding convertible securities, exchangeable securities or securities with warrants;
  - 7.12.4 there are no acquisition rights and/or obligations over the unissued share capital of the Company and the Company has given no undertaking to issue Shares other than in accordance with the Articles and this document;
  - 7.12.5 no capital of the Company is under option or is agreed, conditionally or unconditionally, to be put under option; and
  - 7.12.6 there are no restrictions on the transfer of Shares other than the restrictions described in the Articles (see paragraph 8 below), including (without limitation) that the Board may refuse to register a transfer of shares which might result in: (i) the Company incurring a liability in connection with being required to register as an “investment company” under the US Investment Company Act; (ii) the Company losing an exemption from the requirement to register as an investment company under the US Investment Company Act; (iii) the assets of the Company being deemed to be assets of a ERISA Plan Investor; or (iv) the offer and sale being subject to registration under the Securities Act, and that the Board may require the transfer of shares by a person believed to be a ERISA Plan Investor.
- 7.13 In relation to new issues of Shares, the Company, as far as practicable, has regard to what is best practice in the context of investment companies that are traded on the SFS and complies with institutional investor guidelines in relation thereto.



## 8 Memorandum and Articles of Incorporation

8.1 The objects of the Company are unlimited. The Memorandum and Articles are available for inspection at the address specified in paragraph 22 below and are available on the Company's website. If the resolutions proposed at the EGM are passed, the Articles will be adopted.

8.2 The Articles contain provisions, *inter alia*, to the following effect:

8.2.1 **Shares Generally:** The share capital of the Company is represented by an unlimited number of Shares of no par value having the rights hereinafter described. The holders of Shares shall have the following rights:

- (a) **Dividends:** Holders of Shares of a particular class or tranche are entitled to receive, and participate in, any dividends or other distributions relating to the assets attributable to the relevant class or tranche which are resolved to be distributed in respect of any accounting period or other period, provided that no calls or other sums due by them to the Company are outstanding.
- (b) **Winding Up:** On a winding up, the holders of Shares of a particular class or tranche shall be entitled to the surplus assets attributable to that class or tranche remaining after payment of all the creditors of the Company.
- (c) **Voting:** Subject to any rights or restrictions attached to any class or tranche of Shares, at a general meeting of the Company, on a show of hands, every holder of voting Shares present in person or by proxy and entitled to vote shall have one vote, and on a poll every holder of voting Shares present in person or by proxy shall have one vote for each Share held by him, but this entitlement shall be subject to the conditions with respect to any special voting powers or restrictions for the time being attached to any class or tranche of Shares which may be subject to special conditions. Where there are joint registered holders of any Share, any one of such persons may vote at any meeting whether in person or by proxy in respect of such Share as if it were solely entitled thereto if more than one of such joint shareholders are present at any meeting personally or by proxy, the person whose name stands first on the register of members of the Company shall alone be entitled to vote.

Subject to the Companies Law, a written resolution to which the requisite majority of Shareholders entitled to vote on the circulation date of such written resolution have, within twenty eight days of the date of circulation of such written resolution, signified their agreement shall be as effective as if the same had been duly passed at a general meeting.

Any corporation which is a Shareholder may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of Shareholders, and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual Shareholder.

8.2.2 **Variation of Rights:** All or any of the rights at the relevant time attached to any class or group of Shares may only be varied with the consent in writing of the holders of not less than seventy-five per cent in value of the issued Shares of the class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of the relevant class. (Please refer to paragraph 9 of Part 7 for further details on voting.) The quorum at any such meeting (other than an adjourned meeting at which those of the relevant Shareholders who are present shall be a quorum) shall be Shareholders of the class or group affected holding or representing by proxy at least one third in number of the capital paid on the issued Shares of the class in question. The rights conferred upon the holders of the Shares of any class issued with preferred or other rights shall not (unless otherwise expressly provided by the terms of issue of the Shares of that class) be deemed to be varied by the creation or issue of further Shares ranking *pari passu* with them.

- 8.2.3 **Issue of Shares:** Subject to the provisions of the Companies Law and the Articles, the Directors may exercise the power of the Company to issue shares of the Company as they see fit, to grant rights to subscribe for or convert any security into shares of the Company, to issue shares of different types or classes, to convert all or any of the Company's shares into redeemable shares, to issue shares with or without par value and to determine the consideration payable on the issue of such shares, in each case in respect of an unlimited number of shares. The Directors may pay any commission of such amount as may from time to time be determined by the Directors. Subject to the provisions of the Companies Law, the Articles and other members' rights, shares may be issued with or have attached to them such rights and restrictions as the Board may from time to time decide. No person shall be recognised by the Company as holding any Share upon any trust and the Company shall not be bound by or recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any Share or fractioned part thereto (except as provided by the Articles or the Companies Law), any other right in respect of any Share, except an absolute right thereto in the registered holder.
- 8.2.4 **Compulsory Acquisition of Shares:** The Articles do not contain any rights to compulsorily acquire Shares.
- 8.2.5 **Buyback:** The Company may acquire its own shares (including any redeemable shares). Any Shares so acquired by the Company may be cancelled or held as treasury shares provided that the number of shares of any class held as treasury shares must not at any time exceed any limitation set out in the Companies Law. Any shares acquired in excess of this limit shall be treated as cancelled.
- 8.2.6 **Duration:** The Company has been incorporated with an indefinite life. On or before 12 June 2028, the Company shall propose to Shareholders the Continuation Resolution. If the Continuation Resolution is passed by Shareholders, a further Continuation Resolution will be proposed on the nearest Business Day falling every two years thereafter at an extraordinary general meeting to be convened by the Board until such Continuation Resolution is not passed. If the Continuation Resolution is not passed, the Board shall draw up proposals for the voluntary liquidation of the Company for submission to Shareholders as a special resolution at an extraordinary general meeting to be convened by the Board for a date not more than 90 days after the date of the extraordinary general meeting at which the Continuation Resolution was not passed.
- 8.2.7 **Winding Up:** The Company may be wound up voluntarily at any time by special resolution in accordance with the Articles. Upon the passing of such special resolution, the process of voluntary winding up shall commence and the Company shall cease to carry on business except in so far as it may be expedient for the beneficial winding up of the Company. If the Company shall be wound up, the surplus assets remaining after payment of all creditors will be divided *pari passu* among Shareholders *pro rata* to their shareholdings but subject to the rights of any Shares which may be issued with special rights or privileges. If the Company shall be wound up the liquidator of the Company may with the authority of a special resolution of the Company divide among Shareholders in specie the whole or any part of the assets of the Company and may for such purposes set such value as he deems fair upon any one or more class or classes or property and may determine how such division shall be carried out as between the Shareholders or different classes of Shareholders. The liquidator may with the like authority vest any part of the assets in trustees upon such trusts for the benefit of Shareholders as the liquidator with the like authority shall think fit but so that no Shareholder shall be compelled to accept any shares or other assets in respect of which there is any outstanding liability.
- 8.2.8 **Notice requiring disclosure of interest in Shares:** The Directors shall have power by notice in writing to require any Shareholder to disclose to the Company the identity of any person (other than the member) who has any interest in the Shares held by the member and the nature of such interest. Any such notice shall require any information

in response to such notice to be given in writing within 28 days after service of the notice or 14 days if the Shares concerned represent 0.25 per cent or more of the issued Shares of the Company.

The Company may maintain a register of interested parties and whenever in pursuance of a requirement imposed on a member or other person as aforesaid the Company is informed of an interested party the identity of the interested party and the nature of the interest shall be promptly inscribed therein together with the date of the request. The Company shall not permit such register to be kept or maintained in the United Kingdom or to be inspected by anyone other than a Director.

If any member is in default in supplying to the Company the information required by the Company within the prescribed period, the Directors in their absolute discretion may serve a direction notice on the member. The direction notice may direct that in respect of the Shares in respect of which the default has occurred (the “**Default Shares**”) and any other Shares held by the member, (i) the member shall not be entitled to vote in general meetings or meeting of the holders of any class of Shares; (ii) where the Default Shares represent at least 0.25 per cent of the number of Shares in issue of the class of Shares concerned, the direction notice may additionally direct that any dividend or distribution or the proceeds of any repurchase, redemption or repayment on the Default Shares will be retained by the Company (without interest); and (iii) that no transfer of the Default Shares (other than a transfer to an offeror by way or in pursuance of acceptance of a public offer made to acquire all the issued share capital of the Company not already owned by the offeror or persons connected with it; or the Directors are satisfied that the transfer is made pursuant to a sale of the whole of the beneficial ownership of the Shares to a party unconnected with the member and with other persons appearing to the Directors to be interested in such Shares; or the transfer results from a sale made through a recognised investment exchange (as defined in the Financial Services and Markets Act 2000, as amended) or any stock exchange outside the United Kingdom on which the Shares are listed or normally traded (“Permitted Transfers”)) shall be registered unless the member is not himself in default as regards supplying the information requested and the transfer when presented for registration is accompanied by a certificate by the member in a form satisfactory to the Directors to the effect that after due and careful enquiry the member is satisfied that no person in default as regards supplying the information is interested in any of the Shares the subject of the transfer.

If Shares are issued to a member as a result of that member holding other Shares in the Company and if the Shares in respect of which the new Shares are issued are Default Shares in respect of which the member is for the time being subject to particular restrictions, the new Shares shall on issue become subject to the same restrictions whilst held by that member as such Default Shares.

Any direction notice shall have effect in accordance with its terms for as long as the default in respect of which the direction notice was issued continues, but shall cease to have effect in relation to any Shares which are transferred by such member by means of a Permitted Transfer. As soon as practicable after the direction notice has ceased to have effect (and in any event within five business days thereafter) the Directors shall procure that the restrictions shall be removed and that dividends and other moneys withheld are paid to the member.

Any member who has given notice to the Company of an interested party and who subsequently ceases to have any party interested in his Shares or has any other party interested in his Shares shall, where such a register is maintained, after becoming aware of that, notify the Company in writing of the cessation or change in such interest and the Directors shall promptly amend the register of interested parties accordingly.

#### ***Forced Transfers:***

There are circumstances where the Board may declare a Shareholder to be a “Non-Qualified Holder” and that the Board may require that any shares held by such a Shareholder (the “**Prohibited Shares**”) shall be transferred to another person who is

not a “Non-Qualified Holder”, failing which the Company itself may dispose of such Prohibited Shares at the best price reasonably obtainable and pay the net proceeds to the former holder.

A “**Non-Qualified Holder**” is a person, as determined by the Board, to whom a sale or transfer of Shares or in relation to whom the holding of Shares:

- (i) would cause the assets of the Company to be treated as “plan assets” of any benefit plan investor under section 3(42) of ERISA;
- (ii) might result in the Company and/or its Shares or the Investment Adviser being required to be registered or qualified under the US Investment Company Act and/or the US Investment Advisers Act and/or the Securities Act and/or the US Exchange Act and/or any similar legislation (in any jurisdiction) that regulates the offering and sale of securities;
- (iii) might cause the Company to not be considered a “Foreign Private Issuer” under the US Exchange Act;
- (iv) may cause the Company to be a “controlled foreign corporation” for the purposes of the US Code; or
- (v) may cause the Company to be subject to any withholding tax or reporting obligation under FATCA or any similar legislation in any territory or jurisdiction, or to be unable to avoid or reduce any such tax or to be unable to comply with any such reporting obligation (including by reason of the failure of the Shareholder concerned to provide promptly to the Company such information or documentation as the Company may have requested to enable it to avoid or minimise such withholding tax or to comply with such reporting obligation).

No ERISA Plan Investor or “Controlling Person” (being a person, other than an ERISA Plan Investor, that has discretionary authority or control with respect to the assets of the Company or that provides investment advice for a fee (direct or indirect) with respect to such assets, or any affiliate of such a person) may acquire shares without the Company’s prior written consent (which consent may be withheld in the Company’s sole and absolute discretion).

Prior to the Shares qualifying as a class of “publicly-offered securities” under or in relation to the Plan Assets Regulation (or the Shares qualifying for another exception to the “look through” rule thereunder), transfers of Shares to ERISA Plan Investors that would increase aggregate ERISA Plan Investor ownership of any class of Shares to a level that would meet or exceed 25 per cent. or more of the value of any class of capital or other equity interest in the Company will be void ab initio. In such event, (i) Shares of the affected class held by ERISA Plan Investors shall be deemed to be “Shares-in-Trust”, *pro rata*, to the extent necessary to reduce aggregate ERISA Plan Investor ownership of shares of such class below the 25% threshold and (ii) such number of Shares (rounded up, in the case of each holder, to the nearest whole share) shall be transferred into a trust for charitable purposes, to be sold to a person whose ownership of those Shares will not violate the ownership limitations set forth in the Articles.

In the event that any Shares are deemed “Shares-in-Trust”, the relevant Shareholder shall not benefit economically from ownership of any Shares-in-Trust, shall have no rights to dividends or other distributions, shall not possess any rights to vote or other rights attributable to the Shares-in-Trust, shall cease to own any right or interest with respect to such Shares and the Company will have the right to repurchase such Shares-in-Trust for an amount equal to their fair market value, which proceeds shall be payable to the purported owner. All Shares-in-Trust shall cease to be designated as Shares-in-Trust and shall be returned, automatically and by operation of law, to their purported owners, at such time as those Shares qualify as a class of “publicly-offered securities” or if another exception to the “look-through” rule under the Plan Assets Regulation applies.

8.2.9 **Dividends:** The Directors may from time to time authorise dividends and distributions to be paid to Shareholders in accordance with the procedure set out in the Companies Law and subject to any Shareholder's rights attaching to such Shares. The Directors may resolve that any such dividends or distributions will be satisfied wholly or partly by the distribution of assets (including, but not limited to, paid up shares or other securities of any other company), and may authorise any person to sell and transfer any fractions or may ignore fractions altogether, and may fix the value for dividend and distribution purposes of any assets or any part thereof. No dividend or distribution or other monies payable on or in respect of a share shall bear interest against the Company. All dividends or distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed. All dividends or distributions unclaimed six years after the date of declaration shall, if the directors resolve, be forfeited and shall revert to the Company.

8.2.10 **Transfer of Shares:** The Articles provide that the Directors may implement such arrangements as they may think fit in order for any class of shares to be admitted to settlement by means of an uncertificated system. If the Directors implement any such arrangements no provision of the Articles shall apply or have effect to the extent that it is in any respect inconsistent with: (a) the holding of shares of that class in uncertificated form; (b) the transfer of title to shares of that class by means of the CREST system; or (c) the relevant Guernsey regulations and rules of the operator of the relevant system. Where any class of shares is for the time being admitted to settlement by means of a relevant system such securities may be issued in uncertificated form in accordance with and subject as provided in the relevant Guernsey regulations and rules of the operator of the relevant system. Unless the Directors otherwise determine, such securities held by the same holder or joint holder in both certificated form and uncertificated form shall be treated as separate holdings. Such securities may be changed from uncertificated to certificated form, and from certificated to uncertificated form, in accordance with and subject as provided in the relevant regulations and rules. Title to such shares as are recorded on the register as being held in uncertificated form may be transferred only by means of the relevant system.

Subject to any applicable restrictions under the Articles, any Shareholder may transfer all or any of his uncertificated Shares by means of an uncertificated system in such manner provided for and subject to the relevant regulations and rules and no provision of the Articles shall apply in respect of an uncertificated Share to the extent that it requires or contemplates the effecting of a transfer by an instrument in writing or the production of a certificate for the Shares to be transferred. Any Shareholder may transfer all or any of his certificated Shares by an instrument of transfer in any usual common form or in any other form which the Board may approve. Every instrument of transfer of a certificated Share shall be left at the registered office of the Company or such other place as the Board may prescribe with the certificate of every Share to be transferred and such other evidence as the Board may reasonably require to prove the title of the transferor or his right to transfer the Shares.

The Board may, in its absolute discretion and without giving a reason, decline to transfer, convert or register any transfer of any Share in certificated form or (to the extent permitted by the relevant regulations and rules) uncertificated form which is not fully paid or on which the Company has a lien, provided in the case of a listed or quoted Share that this would not prevent dealings in the share from taking place on an open and proper basis on the London Stock Exchange. In addition, the Board may refuse to register a transfer of Shares if it is in respect of more than one class of Shares; it is in favour of more than four joint transferees; in relation to a Share in certificated form, it is not accompanied by the certificate for the Shares to which it relates and such other evidence as the Board may reasonably require to prove title of the transferor and the due execution by him of the transfer or, if the transfer is executed by some other person on his behalf, the authority of that person to do so; and the transfer is in favour of any Non-Qualified Holder.



To the extent permitted by the Companies Law the registration of transfers may be suspended at such times and for such periods (not exceeding 30 days in the aggregate in any calendar year) as the Board may decide on giving notice in La Gazette Officielle and either generally or in respect of a particular class of Share except that, in respect of any Shares which are held in an uncertificated system, the register of members shall not be closed without the consent of the operator of the relevant system.

**8.2.11 Alteration of Capital:** The Company at any time may, by ordinary resolution, consolidate and divide all or any of its Shares into shares of larger amounts than its existing Shares; sub-divide its Shares, or any of them, into shares of smaller amount than is fixed by the Memorandum or Articles or ordinary resolution; cancel any Shares which, at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its shares by the amount of the shares so cancelled; re-designate the whole, or any particular class, of its Shares into shares of another class; convert all or any of its Shares the nominal amount of which is expressed in a particular currency or former currency into shares of a nominal amount of a different currency; or where its Shares are expressed in a particular currency or former currency, denominate or redenominate it, whether expressing the amount in units or subdivisions of that currency or former currency, or otherwise.

**8.2.12 Notices:** A notice may be given by the Company to any Shareholder either personally or by sending it by prepaid post addressed to such Shareholder at his registered address or by electronic means in accordance with the Articles. A notice may be given by the Company to the joint holders of a share by giving the notice to the joint holder first named in the register of members of the Company in respect of the share.

Unless the Companies Law specifies otherwise a notice shall, unless the contrary is shown, be deemed to have been received:

- (a) in the case of a notice sent by post to an address in the United Kingdom, Channel Islands or the Isle of Man, on the third day after the day of posting;
- (b) in the case of a notice sent by post elsewhere by airmail, on the seventh day after posting;
- (c) in the case of a notice sent by electronic means, at the expiration of twenty four hours after the time it was sent,

excluding, in the first two cases, any day which is a Saturday, Sunday, Good Friday, Christmas Day, a bank holiday in Guernsey or a day appointed as a day of public thanksgiving or public mourning in Guernsey.

All Shareholders shall be deemed to have agreed to accept communication from the Company by electronic means (including, for the avoidance of doubt, by means of a website) unless a Shareholder notifies the Company otherwise by notice in writing and signed by the Shareholder and delivered to the Company's registered office or such other place as the Board directs. In the absence of any such notice from a Shareholder, the Company may satisfy its obligation to send him any notice or other document by publishing such notice or document on a web site and notifying him personally or by post that such notice or document has been so published.

**8.2.13 General Meetings:** Subject to the Companies Law and the Articles, the first general meeting of the Company shall be held within a period of not more than eighteen months from the day on which the Company was incorporated. Subject to the Companies Law, an annual general meeting shall be held once in every calendar year (provided that no more than fifteen months may elapse between one annual general meeting and the next) at such time and place as the Directors shall appoint.

The Directors are required to call a general meeting in accordance with the Companies Law once the Company has received requisition requests to do so from Shareholders who hold more than ten per cent. of such of the capital of the Company that carries the right of voting at general meetings of the Company (excluding any capital held as treasury shares).



Any general meeting may be held in Guernsey, or elsewhere, as the Directors may from time to time determine.

Unless special notice is required in accordance with the Companies Law, all general meetings shall be called by not less than ten Clear Days' notice in writing. The notice shall specify the place, the date and the time of the meeting, and in the case of any proposed special resolution, waiver resolution or unanimous resolution, the text of such proposed resolution and notice of the fact that the resolution proposed is proposed as such a resolution and the general nature of the business to be dealt with at the meeting and shall be given to such persons as are entitled to receive such notices from the Company, provided that a meeting of the Company shall, notwithstanding that it is called by shorter notice than that specified be deemed to have been duly called if it is so agreed by all the Members entitled to attend and vote thereat.

No business shall be transacted at any general meeting unless a quorum is present. Two Shareholders present in person or by proxy and entitled to vote shall be a quorum. Where the Company has only one Shareholder the quorum shall be one Shareholder present at the meeting in person or by proxy.

At any adjourned meeting, those Shareholders who are present in person or by proxy shall be a quorum. If no Shareholders are present at the adjourned meeting, the meeting shall be dissolved.

**8.2.14 *Proceedings of the Directors:*** The Directors may meet for the despatch of business, adjourn and otherwise regulate its meetings as they think fit. All meetings of Directors shall take place outside of the United Kingdom and any decision reached or resolution passed by the Directors at any meeting held within the United Kingdom or at which half or more of the Directors present are resident in the United Kingdom for tax purposes shall be invalid and of no effect. The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless so fixed shall be two except where the number of Directors has been fixed at one, a Sole Director shall be deemed to form a quorum. The Directors may delegate any of their powers to committees consisting of one or more Directors, as they think fit. The proceedings of any such committee shall be governed by any regulations imposed on it by the Directors.

**8.2.15 *Interests of Directors:*** A Director must, immediately after becoming aware of the fact that he is interested in a transaction or proposed transaction with the Company, disclose to the Directors (i) if the monetary value of the Director's interest is quantifiable, the nature and monetary value of that interest, or (ii) if the monetary value of the Director's interest is not quantifiable, the nature and extent of that interest, in each case unless the transaction or proposed transaction is between the Director and the Company, and is to be entered into in the ordinary course of the Company's business and on usual terms and conditions. A Director shall be counted in the quorum at any meeting in relation to any resolution in respect of which he has declared an interest and may vote thereon. A general notice given to the Directors that a Director is to be regarded as having an interest of the nature and extent specified in the notice in any transaction or arrangement in which a specified person or class of persons is interested shall be deemed to be a disclosure that the Director has an interest in any such transaction of the nature and extent so specified. An interest of which a Director is unaware shall not be treated as an interest of his.

Subject to the provisions of the Companies Law, and provided that he has disclosed to the other Directors the nature and extent of any material interest of his, a Director notwithstanding his office:

- (a) may be a party to, or otherwise interested in, any transaction or arrangement with the Company, or in which the Company is otherwise interested;
- (b) may act by himself or through his firm in a professional capacity for the Company (otherwise than as auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a Director;

- (c) may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or a member of or otherwise, directly or indirectly, interested in, any body corporate promoted by the Company, or with which the Company has entered into any transaction, arrangement or agreement or in which the Company is otherwise interested; and
- (d) shall not by reason of his office be accountable to the Company for any benefit which he derives from any such office or employment or from any such transaction or arrangement or from any interest in any such body corporate and no such transaction or arrangement shall be liable to be avoided on the ground of any such interest or benefit.

A Director may continue to be or become a director, managing director, manager or other officer, employee or member of any company promoted by the Company or in which the Company may be interested or with which the Company has entered into any transaction, arrangement or agreement, and no such Director shall be accountable for any remuneration or other benefits received by him as a director, managing director, manager or other officer or member of any such other company. The Directors may exercise the voting power conferred by the shares in any other company held or owned by the Company or exercisable by them as directors of such other company, in such manner in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of them directors, managing directors, managers or other officers of such company, or voting or providing for the payment of remuneration to the directors, managing directors, managers or other officers of such company).

**8.2.16 Remuneration of Directors:** The Directors are entitled to such remuneration as the Directors determine from time to time in their absolute discretion, provided that the aggregate amount paid to the Directors by way of fees shall not exceed US\$400,000 in any financial year, or such greater sum as may be determined from time to time by ordinary resolution of the Company. Such remuneration is deemed to accrue from day to day. The Directors are also paid all reasonable travelling, hotel and other expenses properly incurred by them in attending meetings of the Directors or any committee of the Directors or general meetings of the Company or in connection with the business of the Company. Any Director may by notice in writing under his hand appoint any person (including another Director) to be his alternate Director to attend and vote as a Director at all such meetings at which his appointor is not personally present and generally at such meetings to perform all functions of his appointor as a Director and for the purposes of the proceedings at such meetings the provisions of the Articles shall apply as if he (instead of his appointor) were a Director. If he is himself a Director, or attends any such meeting as an alternate for more than one Director, his voting rights shall be cumulative.

An alternate Director shall be entitled to contract and be interested in and benefit from contracts or arrangements or transactions and to be repaid expenses and to be indemnified to the same extent *mutatis mutandis* as if he were a Director

**8.2.17 Appointment of Directors:** The Directors have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting and shall then be eligible for re-election. Unless otherwise determined by the members by ordinary resolution, the number of Directors shall not be subject to any maximum and the minimum number shall be one. At no time shall half or more of the Directors, including alternates, be resident in the United Kingdom, and a person shall not be appointed as a Director if as a result of such appointment the Board would cease to consist of a majority of Directors resident outside the United Kingdom.

No person other than a Director retiring at a general meeting shall, unless recommended by the Directors, be eligible for election by the Company to the office of Director unless not less than three and not more than twenty one days before the date appointed for the meeting there shall have been left at the Company's registered office

notice in writing signed by a Shareholder who is duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election together with notice in writing signed by that person of his willingness to be elected.

**8.2.18 Retirement and Removal of Directors:** The office of a Director shall, ipso facto, be vacated:

- (a) if he resigns his office by writing;
- (b) if he shall have absented himself (such absence not being absence with leave or by arrangement with the Directors on the affairs of the Company) from meetings of the Directors for six months in succession and the other Directors shall have resolved that his office shall be vacated;
- (c) if he becomes bankrupt, suspends payment or compounds with his creditors, or is adjudged insolvent or has his affairs declared en désastre or has a preliminary vesting order made against his Guernsey realty;
- (d) if he dies;
- (e) if he becomes ineligible to be a Director;
- (f) if he is removed by resolution of the Directors in writing signed by all his co-Directors (being not less than two in number) provided that, until the date of such written resolution, his acts as a Director shall be as effectual as if his office were not vacated; or
- (g) if the Company by ordinary resolution declares that he shall cease to be a Director.

**8.2.19 Borrowing Powers:** The Directors may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and to issue securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

**8.2.20 Indemnity and Insurance:** The Directors (including any alternate Director) and other officer or employee for the time being of the Company shall be indemnified out of the assets of the Company to the fullest extent permitted by the Companies Law from and against all actions, costs, charges, losses, damages and expenses in respect of which they may lawfully be indemnified which they or any of them shall or may incur or sustain by reason of any contract entered into or any act done, concurred in, or omitted, in or about the execution of their duty or supposed duty or in relation thereto.

To the fullest extent permitted by the Companies Law, the Directors shall have the power to purchase and maintain insurance for, or for the benefit of, any persons who are or were at any time Directors, officers or employees of the Company, or of any other company which is its holding company or in which the Company or such holding company or any of the predecessors of the Company or of such holding company has any interest whether direct or indirect or which is in any way allied to or associated with the Company, or of any subsidiary undertaking of the Company or of any such other company, including, without prejudice to the generality of the foregoing, insurance against any liability incurred by such persons in respect of any act or omission in the actual or purported execution and/or discharge of their duties and/or the exercise or purported exercise of their powers and/or otherwise in relation to or in connection with their duties, powers or offices in relation to the Company or any other such company or subsidiary undertaking.

**8.2.21 Register of Members and Other Statutory Records:** The Company shall keep a Register in accordance with the Companies Law and outside the United Kingdom. The registration of transfers of shares may be suspended at such times and for such a period (not exceeding in aggregate thirty days in any calendar year) as the Directors may determine. The Register of Members is held with the Registrar.

**8.2.22 C Shares:** The rights and restrictions attaching to the C Shares and the New 2021 Shares arising on their conversion are summarised below.

- (l) The following definitions apply for the purposes of this paragraph 8.2.22 only:

**Realisation Share Surplus** means the net assets of the Company attributable to the Realisation Shares (as determined by the Directors) at the date of winding up or other return of capital;

**2021 Share Surplus** means the net assets of the Company attributable to the 2021 Shares (as determined by the Directors) at the date of winding up or other return of capital;

**Back Stop Date** such date as determined by the Directors and set out in the Specified Conversion Criteria;

**C Share Surplus** means in relation to any class or tranche of C Shares, the net assets of the Company attributable to that class or tranche of C Shares (as determined by the Directors) at the date of winding up or other distribution or return of capital);

**Calculation Time** means the earliest of the:

- (i) close of business on the last Business Day prior to the day on which Force Majeure Circumstances have arisen or the Directors resolve that they are in contemplation;
- (ii) the close of business on such date as the Directors may decide is necessary to enable the Company to comply with its obligations in respect of the Conversion of that class or tranche of C Shares;
- (iii) the close of business on the Back Stop Date for the relevant class or tranche of C Shares; and
- (iv) the close of business on such date as the Directors may determine, provided that the Directors shall, in their discretion, have resolved that the Early Investment Condition of the relevant class or tranche of C Shares has been satisfied and that the relevant class or tranche of C Shares shall be converted.

**Conversion** means in relation to any class or tranche of C Shares, conversion of that class or tranche of C Shares in accordance with the Articles;

**Conversion Ratio** means, in relation to each class or tranche of C Shares,  $A$  divided by  $B$  calculated to four decimal places (with 0.00005 being rounded upwards) where:

$$A = \frac{C - D}{E}$$

and

$$B = \frac{F - G}{H}$$

Where:

**C** is the aggregate value of all assets and investments of the Company attributable to the relevant class or tranche of C Shares (as determined by the Directors) at the relevant Calculation Time calculated in accordance with the valuation policy adopted by the Directors from time to time;

**D** is the amount which (to the extent not otherwise deducted in the calculation of **C**) in the Directors' opinion fairly reflects at the relevant Calculation Time the amount of the liabilities and expenses of the Company attributable to the C Shares of the relevant class or tranche (as determined by the Directors);

**E** is the number of the C Shares of the relevant class or tranche in issue as at the relevant Calculation Time;

**F** is the aggregate value of all assets and investments attributable to the 2021 Shares (as determined by the Directors) at the relevant Calculation Time calculated in accordance with the valuation policy adopted by the Directors from time to time;

**G** is the amount which (to the extent not otherwise deducted in the calculation of F) in the Directors' opinion, fairly reflects at the relevant Calculation Time the amount of the liabilities and expenses of the Company attributable to the 2021 Shares; and

**H** is the number of 2021 Shares in issue as at the relevant Calculation Time;

Provided always that:

- (a) the Directors shall be entitled to make such adjustments to the value or amount of A or B as they believe to be appropriate having regard to, among other things, the assets of the Company immediately prior to the Issue Date or the Calculation Time or to the reasons for the issue of the C Shares of the relevant class or tranche;
- (b) in relation to any class or tranche of C Shares, the Directors may, as part of the terms of issue of such class or tranche, amend the definition of Conversion Ratio in relation to that class or tranche; and
- (c) where valuations are to be made as at the Calculation Time and the Calculation Time is not a Business Day, the Directors shall apply the provisions of this definition as if the Calculation Time were the preceding Business Day.

**Conversion Time** means a time following the Calculation Time, being the opening of business in London on such Business Day as may be selected by the Directors and falling not more than 20 Business Days after the Calculation Time;

**Early Investment Condition** any such condition specified in the Specified Conversion Criteria;

**Force Majeure Circumstances** in relation to any class or tranche of C Shares:

- (a) any political or economic circumstances or actual or anticipated changes in fiscal or other legislation which, in the opinion of the Directors, renders Conversion necessary or desirable;
- (b) the issue of any proceedings challenging, or seeking to challenge the power of the Company or its Directors to issue the C Shares of that class or tranche with the rights proposed to be attached to them or to the persons to whom they are, or the terms on which they are, proposed to be issued; or
- (c) the convening of any general meeting of the Company at which a resolution is to be proposed to wind up the Company;

**Issue Date** in relation to any class or tranche of C Shares, the date on which the admission of the C Shares of a particular class or tranche first becomes effective or such other date as the Directors may determine;

**New 2021 Shares** means the new 2021 Shares arising upon the Conversion of the C Shares in accordance with the Articles; and

**Specified Conversion Criteria** in respect of any issue of C Shares, such criteria as determined by the Directors announced by the Company through a RIS, setting out, among other matters, the Back Stop Date and the Early Investment Condition.

Reference to ordinary shareholders and C shareholders should be construed as references to holders for the time being of 2021 Shares and C Shares respectively.



- (II) The Directors are authorised, pursuant to the Articles, to issue C Shares of such classes and tranches as they may determine and with C Shares of each such class or tranche being convertible into New 2021 Shares.
- (III) The Directors shall, on the issue of each class or tranche of C Shares, be entitled to effect any amendments to the definition of Conversion Ratio attributable to each class or tranche.
- (IV) The holders of the C Shares and the New 2021 Shares shall, subject to the provisions of the Articles, have the following rights:
  - (a) **Issues of C Shares:** Subject to the Companies Law, the Directors shall be authorised to issue C Shares (in one or more classes) on such terms as they determine provided that such terms are consistent with provisions contained in this paragraph. The Directors shall, on the issue of each class or tranche of C Shares, determine the Calculation Time and Conversion Time together with any amendments to the definition of "Conversion Ratio" attributable to each such class or tranche. Each class or tranche of C Shares, if in issue at the same time, shall be deemed to be a separate class of shares. The Directors may, if they so decide, designate each class or tranche of C Shares in such manner as they see fit in order that each class or tranche of C Shares can be identified.
  - (b) **Dividends and pari passu ranking of C Shares and New 2021 Shares:** The holders of C Share(s) of a class or tranche shall be entitled to receive, and participate in, any dividends declared only insofar as such dividend is attributed, at the sole discretion of the Directors, to the C Share Surplus of that class or tranche. If any dividend is declared after the issue of any class or tranche of C Shares and prior to the Conversion of that class or tranche, the holders of 2021 Shares shall be entitled to receive and participate in such dividend only insofar as such dividend is not attributed, at the sole discretion of the Directors, to the C Share Surplus of the relevant class or tranche of C Shares. The New 2021 Shares shall rank in full for all dividends and other distributions declared, made or paid after the Conversion Time and otherwise *pari passu* with the 2021 Shares in issue at the Conversion Time.
  - (c) **Rights as to capital:** The capital and assets of the Company shall, on a winding up or on a return of capital prior, in each case, to Conversion be applied as follows:
    - (i) the Realisation Share Surplus shall be divided amongst the holders of Realisation Shares *pro rata* to their holdings of Realisation Shares in such class as if the Realisation Share Surplus comprised the assets of the Company available for distribution;
    - (ii) the 2021 Share Surplus shall be divided amongst the holders of 2021 Shares *pro rata* to their holdings of 2021 Shares in such class as if the 2021 Share Surplus comprised the assets of the Company available for distribution;
    - (iii) the C Share Surplus attributable to each class or tranche of C Shares shall be divided amongst the holders of such class or tranche *pro rata* according to their holdings of the C Shares of that class or tranche.
  - (d) **Voting and transfer:** The C Shares shall carry the right to receive notice of, and to attend or vote at, any general meeting of the Company in the same manner as the 2021 Shares (notwithstanding any difference in the respective Net Asset Values of the C Shares and 2021 Shares). The C Shares shall be transferable in the same manner as the 2021 Shares.

- (e) **Redemption:** The C Shares are issued on terms that each class or tranche of C Shares shall be redeemable by the Company in accordance with the terms set out in the Articles. At any time prior to Conversion, the Company may, at its discretion, redeem all or any of the C Shares then in issue by agreement with any holder(s) thereof in accordance with such procedures as the Directors may determine (subject to the facilities and procedures of CREST) and in consideration of the payment of such redemption price as may be agreed between the Company and the relevant holders of C Share(s).
- (f) **Class consents and variation of rights:** Without prejudice to the generality of the Articles, for so long as any C Shares are in issue, until Conversion of all such C Shares it shall be a special right attaching both to the existing 2021 Shares and to the C Shares as separate classes that save that with the sanction or consent of such holders given in accordance with the Articles that:
  - (i) no alteration shall be made to the Articles of the Company; and
  - (ii) no resolution of the Company shall be passed to wind up the Company.

For the avoidance of doubt but subject to the rights or privileges attached to any other class of shares, the previous sanction of a special resolution of the holders of 2021 Shares and/or C Shares shall not be required in respect of:

- (i) the issue of further 2021 Shares ranking *pari passu* in all respects with the 2021 Shares, or
  - (ii) the sale of any shares held as treasury shares or the purchase of any shares by the Company (whether or not such shares are to be held as treasury shares).
- (g) **Undertakings:** Until Conversion, and without prejudice to its obligations under the Companies Law, the Company shall in relation to each class or tranche of C Shares:
  - (i) procure that the Company's records and bank accounts shall be operated so that the assets attributable to the relevant class or tranche of C Shares can, at all times, be separately identified and, in particular but without prejudice to the generality of the foregoing, the Company shall procure that separate cash accounts, broker settlement accounts and investment ledger accounts shall be created and maintained in the books of the Company for the assets attributable to each class or tranche of C Shares; and
  - (ii) allocate to the class account assets attributable to each class or tranche of C Shares any expense, asset, profit, gain, income, loss or liability relating to the assets attributable to such class or tranche (or, where such expenses, asset, profit, gain, income, loss or liability is not attributable to a specific class, such proportion as the Directors determine shall be allocated to the relevant class or tranche of C Shares).
- (h) **Conversion:** In relation to each class or tranche of C Shares, the C Shares shall be converted into New 2021 Shares at the Conversion Time in accordance with the following provisions of this paragraph. The Directors shall procure that:
  - (i) within twenty Business Days after the Calculation Time, the Company (or its delegate) shall calculate the Conversion Ratio as at the Calculation Time and the number of New 2021 Shares to which each holder of C Shares of that class or tranche shall be entitled on Conversion; and

- (ii) the Company's auditor may, if the Directors consider it appropriate, be requested to certify that such calculations:
  - have been performed in accordance with the Articles; and
  - are arithmetically accurate,

whereupon, subject to the proviso in the definition of Conversion Ratio in the Articles, such calculations shall become final and binding on the Company and all Shareholders.

The Directors shall procure that, as soon as practicable following such certification, an announcement is made to a Regulatory Information Service, advising holders of C Share(s) of that class or tranche, of the Conversion Time, the Conversion Ratio and the aggregate number of New 2021 Shares to which holders of C Share(s) of that class or tranche are entitled on Conversion.

Conversion shall take place at the Conversion Time. On Conversion:

- (i) each issued C Share of the relevant class or tranche shall automatically convert into such number of New 2021 Shares as shall be necessary to ensure that, upon Conversion being completed, the aggregate number of C Shares which are converted into New 2021 Shares equals the aggregate number of C Shares of that class or tranche in issue at the Calculation Time multiplied by the Conversion Ratio (rounded down to the nearest whole New 2021 Share);
- (ii) the New 2021 Shares arising upon Conversion shall be divided amongst the former holders of C Share(s) *pro rata* according to their respective former holdings of C Shares of the relevant class or tranche (provided always that the Directors may deal in such manner as they think fit with fractional entitlements to New 2021 Shares, including, without prejudice to the generality of the foregoing, selling any such shares representing such fractional entitlements and retaining the proceeds for the benefit of the Company) and for such purposes any Director is authorised as agent on behalf of the former holders of C Share(s), in the case of a share in certificated form, to execute any stock transfer form and to do any other act or thing as may be required to give effect to the same including, in the case of a share in uncertificated form, the giving of directions to or on behalf of the former holders of any C Shares who shall be bound by them; and
- (iii) any certificates relating to the C Shares of the relevant class or tranche shall be cancelled and the Company shall issue to each such former C Shareholder new certificates in respect of the New 2021 Shares which have arisen upon Conversion unless such former holder of any C Shares.

## 9 Voting

### 9.1 Votes by holders of Shares in different classes and by all Shareholders

The following matters shall be matters to be approved firstly by the holders of the Shares in a separate class meeting for such holders only, and then, if approved by such holders in such separate class meeting, shall be proposed for approval by a vote of all Shareholders in the Company in a general meeting:

- (i) a non-pre-emptive issue of Shares of a particular class for cash at a price below the Net Asset Value per Share;
- (ii) significant transactions or related party transactions;

- (iii) any proposed change of trading/listing category or cancellation of the trading/listing of any Shares in a particular class;
- (iv) the granting of authority to the Company to make purchases of the Shares;
- (v) any grant of options over Shares permitting purchase of such shares at less than market price; and
- (vi) any conversion of Shares in a particular class to another class.

In addition the following matters shall be subject to approval by the holders of the Shares in the relevant class at a separate class meeting of such holders of Shares, and then, if approved by them at such separate class meeting, shall be subject to approval by a vote of all Shareholders in the Company in a general meeting:

- (i) dis-application of pre-emption rights in respect of an issue of Shares of an existing or new class;
- (ii) a change to the investment policy or investment objective of the Company which affects or may affect the holders of Shares of a particular class, or a change to the investment policy or investment objective of Master Fund II or of Master Fund III which requires the approval of the Company; and
- (iii) variation of rights attaching to such class of Shares.

## 9.2 **Votes of all Shareholders**

All Shareholders in the Company will vote on certain general corporate matters affecting the Company as a whole in accordance with the Articles and the Companies Law without requiring the separate approval of holders of Shares of separate classes, including but not limited to the following matters:

- (i) the appointment and removal of the directors of the Company;
- (ii) the approval of the Company's annual report and accounts;
- (iii) the approval of the Director's remuneration;
- (iv) the appointment and remuneration of the Company's auditors; and
- (v) any changes to the Articles which do not affect the rights attaching to any class of Shares.

Changes to the Articles which do affect the rights attaching to any class of Shares will require the consent of that class.

## 10 **Directors' and other Interests**

- 10.1 At the Latest Practicable Date, the Directors held the following interests in the share capital of the Company:

<b>Name</b>	<b>Number of 2017 Shares</b>	<b>% of issued Share Capital</b>
Claudio Albanese	9,697	0.002%
Nigel Ward	60,000	0.0128%

A connected party of Jonathan Bridel holds 40,000 2017 Shares (amounting to just under 0.009 per cent. of the issued Share capital).

- 10.2 Miguel Ramos Fuentenebro and Roger Coyle are each a limited partner of Master Fund II, MFII Founder Partner and MFIII Founder Partner. Miguel Ramos Fuentenebro and Roger Coyle are also each a shareholder of the General Partner and a principal of the Investment Adviser. Miguel Ramos Fuentenebro holds 1,428,430 2017 Shares in the Company, Roger Coyle holds 413,454 2017 Shares in the Company and the Investment Adviser holds 122,062 2017 Shares in the Company.

- 10.3 Save as disclosed in paragraphs 10.1 and 10.2 immediately above, paragraph 18 of Part 1, paragraph 24 of Part 2 and paragraph 22 of Part 3 of this document, none of the Directors or GP Directors has any interests, whether beneficial or non-beneficial, in the issued share capital of the Company or limited partnership interests in Master Fund II or Master Fund III nor, so far as is known to the Directors having made appropriate enquiries, does any person connected with them (which expressions shall be construed in accordance with sections 252 to 255 of the Companies Act 2006 and which includes for these purposes relevant personnel of the General Partner).
- 10.4 The Company and the Directors are not aware of: (i) any persons who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company; nor (ii) any arrangements the operation of which may at a subsequent date result in a change in control of the Company.
- 10.5 The Board is independent from Master Fund II's investments, Master Fund III's investments, the General Partner and the Investment Adviser.
- 10.6 The voting rights of the persons listed in paragraph 10.3 above do not differ from the voting rights of any other holder of Shares.
- 10.7 There are no outstanding loans granted by the Company to any Director nor are there any guarantees provided by the Company for the benefit of any Director.
- 10.8 Each Director is currently entitled to a director's fee of £43,000 per annum. There are no performance conditions attaching to the remuneration of the Directors as the Board does not believe that this is appropriate for non-executive directors. The Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. There are no amounts set aside or accrued by the Company to provide pension, retirement or similar benefits.
- 10.9 The Directors hold the following directorships and are partners in the following partnerships and have held the following directorships and have been partners in the following partnerships within the five years prior to the date of this document:

**Claudio Albanese**

*Current directorships and partnerships*

Global Valuation Ltd  
IMEX Analytics Limited

*Past directorships and partnerships within the five years prior to the date of this document*

IMEX Synchronised Risk Limited (dissolved)  
Ipotecs Limited (dissolved)

**Jonathan Bridel**

DP Aircraft I Limited  
DP Aircraft Guernsey I Limited  
DP Aircraft Guernsey II Limited  
DP Aircraft Guernsey III Limited  
DP Aircraft Guernsey IV Limited  
SME Credit Realisation Fund Limited (in run-off)  
Sequoia Economic Infrastructure Income Fund Limited  
The Renewables Infrastructure Group Limited

AFE Spain Limited (previously AnaCap Credit Income Fund GP Limited)  
Aubrey Walk Asset Management Limited  
Alcentra European Floating Rate Income Fund  
AnaCap Credit Opportunities GP II Limited  
AnaCap Credit Opportunities GP III Limited  
AnaCap Credit Opportunities II Limited  
AnaCap Credit Opportunities III Limited  
AnaCap Investment Manager Limited  
Aurora Russia Limited  
BWE GP Limited  
Phaunos Timber Fund Limited  
Starwood European Real Estate Finance Limited  
Starfin Public GP Limited  
Starfin Public Holdco 1 Limited  
Starfin Public Holdco 2 Limited  
Vision Capital Management Limited

**Nigel Ward**

Acorn Income Fund Limited  
AnaCap Credit Opportunities GP II Limited

AFE Spain Limited (formerly AnaCap Credit Income Fund GP Limited)



AnaCap Credit Opportunities II Limited	Braemar Agricultural Land Investments Limited
AnaCap Credit Opportunities GP III Limited	BSA 001 Limited
AnaCap Credit Opportunities III Limited	BSA 002 Limited
AnaCap Group Holdings Limited	Carmen Capital Management Limited
AnaCap Investment Manager Limited	Canaccord Genuity Wealth (International) Limited
Braemar Group PCC Limited	Crystal Amber Fund Limited
Direct Lending Fund I General Partner Limited	Emerging Manager PCC Limited
Gresham House Investment Management (Guernsey) Limited	Ground Rent Wealth General Partner Limited
KRC Limited	HWSI Realisation Fund Limited (formerly Hadrian's Wall Secured Investments Limited)
NBKC Round Hill GP Ltd	TMG 001 Limited
NBKC Round Hill (IRE) Student Housing ICC Limited	TMG 002 Limited
NBKC Round Hill (IRE) Student Housing ICI Limited	TMG 004 Limited
NBKC Round Hill (IRE) Student Housing ICII Limited	
NBKC Round Hill (IRE) Student Housing ICIII Limited	
NBKC Round Hill (IRE) Student Housing ICIV Limited	
NBKC Round Hill (IRE) Student Housing ICV Limited	
NBKC Round Hill (IRE) Student Housing Finco PCC Limited	
NBKC Round Hill Student Housing GP Limited	

10.10 Save as disclosed in paragraph 10.11 below, the Directors in the five years before the date of this document:

- 10.10.1 do not have any convictions in relation to fraudulent offences;
- 10.10.2 have not been associated with any bankruptcies, receiverships or liquidations of any partnership or company through acting in the capacity as a member of the administrative, management or supervisory body or as a partner, founder or senior manager of such partnership or company; and
- 10.10.3 Do not have any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies) and have not been disqualified by a court from acting as a member of the administration, management of supervisory bodies of any issuer or from acting in the management or conduct of the affairs of any issuer.

10.11 Jonathan Bridel is a director of DP Aircraft Guernsey I Limited and DP Aircraft Guernsey II Limited, both of which are wholly-owned subsidiaries of DP Aircraft I Limited (DP Aircraft), a Guernsey incorporated company traded on the Specialist Fund Segment of the Main Market. DP Aircraft Guernsey I Limited and DP Aircraft Guernsey II Limited are the borrowers under loan agreements used to finance the acquisition of two Boeing 787-8 aircraft (the Norwegian Assets) leased to Torskefjorden Leasing Limited, part of the Norwegian group (Norwegian). Norwegian subsequently announced in January of this year that it was ending its long-haul operations, as a result of which it would no longer have need of the Norwegian Assets. On 24 February 2021, DP Aircraft announced that the banks providing the loan finance to the Norwegian Assets (the NAS Lenders) had declared an event of default under the relevant loan agreement and, subsequently, on 26 February 2021, DP Aircraft announced that it had received notices of security enforcement and loan acceleration from the NAS Lenders and, accordingly, that receivers had been appointed in relation to the Norwegian Assets, the related lease and contract rights, and the shares in the Irish special purpose vehicle which holds title to the Norwegian Assets. As a result, the NAS Lenders will control the process of disposing of the Norwegian Assets, with the proceeds of the sale (along with relevant aircraft specific cash balances, claims against Norwegian and shares held in Norwegian as security)

being applied in the first instance to repay any amounts outstanding to the NAS Lenders and any balance remaining thereafter being remitted to DP Aircraft Guernsey I Limited and DP Aircraft Guernsey II Limited, as applicable.

- 10.12 So far as is known to the Company, as at the Latest Practicable Date, the following persons held directly or indirectly five (5) per cent. or more of the Company's voting rights (or options to acquire such control) (under the Disclosure Guidance and Transparency Rules):

<i>Name</i>	<i>Number of voting rights held</i>	<i>Percentage of voting rights (%)</i>
VIDACOS NOMINEES LIMITED	27,184,806	5.80
NORTRUST NOMINEES LIMITED	28,799,906	6.15
BBHISL NOMINEES LIMITED	35,975,565	7.68
VIDACOS NOMINEES LIMITED	44,788,005	9.56
NORTRUST NOMINEES LIMITED	54,159,716	11.56

## **11 Directors' Appointments**

- 11.1 Professor Claudio Albanese was appointed a non-executive Director and Chairman of the Company on 29 April 2014. His appointment is terminable on three months' notice by either the Company or him. The fee currently payable for his services as a non-executive Director is £43,000 per annum. In addition, a one-off payment of £5,000 ("one-off payment") is payable to him relating to work performed in connection with the publication of this document, such fee increasing by an additional £2,500 (i.e. bringing this one-off payment to £7,500) if the total gross amounts raised under the Placing Programme exceed US\$100 million.
- 11.2 Jonathan Bridel was appointed a non-executive Director of the Company on 29 April 2014. His appointment is terminable on three months' notice by either the Company or him. The fee currently payable for his services as a non-executive Director is £43,000 per annum. In addition, a one-off payment of £5,000 ("one-off payment") is payable to him relating to work performed in connection with the publication of this document, such fee increasing by an additional £2,500 (i.e. bringing this one-off payment to £7,500) if the total gross amounts raised under the Placing Programme exceed US\$100 million.
- 11.3 Nigel Ward was appointed a non-executive Director of the Company on 29 April 2014. His appointment is terminable on three months' notice by either the Company or him. The fee currently payable for his services as a non-executive Director is £43,000 per annum. In addition, a one-off payment of £5,000 ("one-off payment") is payable to him relating to work performed in connection with the publication of this document, such fee increasing by an additional £2,500 (i.e. bringing this one-off payment to £7,500) if the total gross amounts raised under the Placing Programme exceed US\$100 million.
- 11.4 The maximum amount of remuneration payable to the Directors permitted under the Articles is US\$400,000 in aggregate in any financial year.
- 11.5 Save as disclosed in this Part 7 of this document, there are no existing or proposed service agreements or consultancy agreements between any of the Directors and the Company which cannot be terminated by the Company without payment of compensation within 12 months.
- 11.6 Other than the payment of benefits during the notice periods set out in this paragraph 11 above, the Directors' letters of appointment provide for no benefits upon termination of their appointment.
- 11.7 There are no arrangements under which any Director has waived or agreed to waive future emoluments nor have there been any such waivers of emoluments during the period immediately preceding the date of this document.

## **12 Related party transactions**

- 12.1 Save as mentioned in Part A in Part 5 of this document, the Company has not entered into any transactions with anyone who is a related party.

- 12.2 Save as mentioned in Part B in Part 5 of this document, Master Fund II has not entered into any transactions with anyone who is a related party.
- 12.3 Master Fund III has not entered into any transactions with anyone who is a related party.
- 12.4 Please note, however, that the General Partner entered into the MFII Investment Advisory Agreement with the Investment Adviser on 9 March 2017 as described in paragraph 11 of Part 2. Please also note that the General Partner entered into the MFIII Investment Advisory Agreement with the Investment Adviser on 26 March 2021, as described in paragraph 8 of Part 3.
- 12.5 No Director has entered into or is otherwise interested in any transaction with the Company or with Master Fund II or with Master Fund III which is not concluded at arm's length.
- 12.6 No Director has any interest, direct or indirect, in any assets which have been acquired by, disposed of by, or leased to, the Company, Master Fund II or Master Fund III or which are proposed to be acquired by, disposed of by, or leased to, the Company, Master Fund II or Master Fund III.
- 12.7 No GP Director has entered into or is otherwise interested in any transaction with Master Fund II or with Master Fund III or with the Company which is not concluded at arm's length.
- 12.8 Except as referred to in paragraph 10.2 above and in paragraph 24 in Part 2 and in paragraph 22 in Part 3, no GP Director has any interest, direct or indirect, in any assets which have been acquired by, disposed of by, or leased to, Master Fund II, Master Fund III or the Company or which are proposed to be acquired by, disposed of by, or leased to, Master Fund II, Master Fund III or the Company.

### **13 Taxation**

The following information, which relates only to UK and Guernsey taxation, is applicable only to the Company, Master Fund II, Master Fund III and certain types of investors (in each case to the extent stated).

Prospective investors should note that the statements below are of an anticipated general nature and are based on what is understood to be current tax law and current published tax authority practice, as of the date of this document, both of which are subject to change, possibly with retrospective effect. In particular, the levels and basis of, and reliefs from, taxation may change and this may alter the benefits of investment in the Company.

The information does not constitute legal, tax or investment advice and is not exhaustive and, if prospective investors are in any doubt as to the tax consequences of acquiring, holding or disposing of their investments, they should consult their professional advisers without delay.

It is the responsibility of all persons interested in purchasing Shares to inform themselves regarding any tax consequences arising in the jurisdictions in which they are resident or domiciled for tax purposes, as well as any foreign exchange or other fiscal or legal restrictions, which are relevant to their particular circumstances in connection with the acquisition, holding or disposal of Shares.

#### **Guernsey Taxation**

The following summary of the anticipated tax treatment in Guernsey of the Company, Master Fund II, Master Fund III and Shareholders is based on what is understood to be Guernsey taxation law and practice in force at the date of this document and does not constitute legal or tax advice. Prospective investors should consult their professional advisers on the implications of subscribing for, buying, holding, selling, redeeming or disposing of Shares under the laws of the jurisdictions in which they may be liable to taxation. Prospective investors should be aware that tax rules and practice and their interpretation may change.

##### **13.1 The Company**

The Company has been granted exemption from liability to income tax in Guernsey under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 as amended) by the Director of the Revenue Service in Guernsey for the current year. Exemption must be applied for annually and will be granted, subject to the payment of an annual fee, which is currently fixed at £1,200, provided that the Company continues to qualify under the applicable legislation for

exemption. It is the intention of the Directors to conduct the affairs of the Company so as to ensure that it continues to qualify for exempt company status for the purposes of Guernsey taxation.

As an exempt company, the Company is and will be treated as if it were not resident in Guernsey for the purposes of liability to Guernsey income tax. The exemption from income tax and treatment of the Company as if it were not resident in Guernsey for the purposes of Guernsey income tax would be effective from the date the exemption is granted and will apply for the year of charge in which the exemption is granted.

Under current law and practice in Guernsey, the Company will only be liable to tax in Guernsey in respect of income arising or accruing in Guernsey, other than from a relevant bank deposit. It is anticipated that no income other than bank interest will arise in Guernsey and therefore the Company will not incur any additional liability to Guernsey tax.

Dividends made by exempt companies to non-Guernsey residents will be free of Guernsey withholding tax and reporting requirements. Where a tax exempt company makes a dividend to shareholders that are Guernsey tax resident individuals the Company will only need to report the relevant details of those dividends.

In the absence of tax exempt status, the Company would be Guernsey tax resident and taxable at the Guernsey standard rate of company income tax, which is currently zero per cent.

### 13.2 Shareholders

Dividends by the Company to Shareholders who are not resident in Guernsey (which includes Alderney and Herm) for tax purposes (and do not have a permanent establishment in Guernsey) can be paid to such Shareholders, either directly or indirectly, without the withholding of Guernsey tax and without giving rise to any other liability to Guernsey income tax.

Shareholders who are resident for tax purposes in Guernsey (which includes Alderney and Herm) or who are not resident but have a permanent establishment in Guernsey to which the holding of their Shares is related, will incur Guernsey income tax at the applicable rate on a dividend paid to them by the Company. So long as the Company has been granted tax exemption, the Company will not be required to withhold any tax from dividends paid to such Shareholders and will only be required to provide the Director of Revenue Service such particulars relating to any dividend paid to Guernsey resident Shareholders as the Director of the Revenue Service may require, including the names and addresses of the Guernsey resident Shareholders, the gross amount of any dividend paid and the date of the payment.

Guernsey currently does not levy taxes upon capital inheritances, capital gains, gifts, sales or turnover, nor are there any estate duties (save for registration fees and *ad valorem* duty for a Guernsey Grant of Representation where the deceased dies leaving assets in Guernsey which require presentation of such a Grant).

No stamp duty is chargeable in Guernsey on the issue, transfer or redemption of Shares in the Company.

### 13.3 Master Fund II and Master Fund III

Master Fund II and Master Fund III are both structured as Guernsey limited partnerships. Guernsey limited partnerships are tax transparent for Guernsey tax purposes and as a result, neither Master Fund II nor Master Fund III will be a taxable entity in Guernsey. Under current Guernsey law, any income of Master Fund II or Master Fund III which is wholly derived from its international operations as defined in the Income Tax (Guernsey) Law, 1975 as amended (the “**Income Tax Law**”) and any interest paid to a Limited Partner is not regarded as arising or accruing from a source in Guernsey in the hands of that Limited Partner if, being an individual, he is not solely or principally tax resident in Guernsey or, being a company, it is not tax resident in Guernsey. It is anticipated that the business of Master Fund II or Master Fund III will be conducted in such a way as to constitute international operations for the purposes of Guernsey tax law and practice. However, in practice it is a question of fact whether or not a partnership is carrying on international operations within the meaning of the Income Tax Law. Accordingly, the income of such Limited Partner from its interest in Master

Fund II or Master Fund III will be disregarded partnership income for the purposes of Guernsey tax law and practice, provided such income does not arise from a business carried on by the Limited Partner of Master Fund II or Master Fund III in Guernsey through a permanent establishment situated in Guernsey, and tax shall not be deducted in Guernsey from such income, whether direct or by way of withholding.

Investors who are resident for tax purposes in Guernsey may be liable to tax in Guernsey on income derived from the operations of Master Fund II or Master Fund III in accordance with their own circumstances. Provided, and for so long as, the Company maintains its status as an exempt company it will be regarded as not resident in Guernsey. Accordingly, any income from the Company's interest in Master Fund II or Master Fund III received in its capacity as a Limited Partner shall not be subject to tax in Guernsey, provided such income is derived from the international operations of Master Fund II or Master Fund III.

Guernsey currently does not levy taxes upon capital inheritances, capital gains, gifts, sales or turnover, nor are there any estate duties (save for registration fees and *ad valorem* duty for a Guernsey Grant of Representation where the deceased dies leaving assets in Guernsey which require presentation of such a Grant).

No stamp duty is chargeable in Guernsey on the issue, transfer or redemption of partnership interests.

#### 13.4 Automatic Exchange of Information

The Company, Master Fund II, Master Fund III and/or interests in the Company and/or in Master Fund II and/or Master Fund III are subject to FATCA and the CRS and legislation implementing FATCA and the CRS.

##### **FATCA – US-Guernsey Intergovernmental Agreement**

On 13 December 2013 the Chief Minister of Guernsey signed an intergovernmental agreement with the United States (“**US-Guernsey IGA**”) regarding the implementation of FATCA. Under FATCA and legislation enacted in Guernsey to implement the US-Guernsey IGA, certain disclosure requirements will be imposed in respect of certain Shareholders and Limited Partners who are, or are entities that are controlled by one or more natural persons who are, residents or citizens of the United States, unless a relevant exemption applies. Certain due diligence obligations will also be imposed. Where applicable, information that will need to be disclosed will include certain information about Shareholders and Limited Partners, their ultimate beneficial owners and/or controllers, and their investment in and returns from the Company, Master Fund II or, as the case may be, Master Fund III. The Company, Master Fund II and Master Fund III will be required to report this information each year in the prescribed format and manner as per local guidance.

Under the terms of the US-Guernsey IGA, Guernsey resident financial institutions that comply with the due diligence and reporting requirements of Guernsey's domestic legislation will be treated as compliant with FATCA and, as a result, should not be subject to FATCA withholding on payments they receive and should not be required to withhold under FATCA on payments they make. If either of the Company, Master Fund II or Master Fund III do not comply with these obligations, it may be subject to a FATCA deduction on certain payments to it of US source income (including interest and dividends) and (from 1 January 2019) proceeds from the sale of property that could give rise to US source interest or dividends. The US-Guernsey IGA is implemented through Guernsey's domestic legislation in accordance with guidance that is published in draft form.

Under the US-Guernsey IGA and Guernsey's implementation of that agreement, securities that are “regularly traded” on an established securities market, such as the SFS (in relation to Realisation Shares, 2021 Shares and C Shares), are not considered financial accounts and are not subject to reporting. For these purposes, the Shares will be considered “regularly traded” if there is a meaningful volume of trading with respect to the Shares on an on-going basis. Notwithstanding the foregoing, a Share will not be considered “regularly traded” and will be considered a financial account if the holder of that Share (other than a financial institution acting as an intermediary) is registered as the holder of that Share on the Company's share register. Such Shareholders will be required to provide information to the Company to allow the Company to satisfy its obligations under FATCA, although it is



expected that whilst a Share is held in uncertificated form through CREST, the holder of that Share will likely be a financial institution acting as an intermediary. Additionally, even if the Shares are considered regularly traded on an established securities market, Shareholders that own their Shares through financial intermediaries may be required to provide information to such financial intermediaries in order to allow the financial intermediaries to satisfy their obligations under FATCA. Notwithstanding the foregoing, the relevant rules under FATCA may change and, even if the Shares are considered regularly traded on an established securities market, Shareholders may, in the future, be required to provide information to the Company in order to allow the Company to satisfy its obligations under FATCA.

#### *Common Reporting Standard*

On 13 February 2014, the OECD released the “Common Reporting Standard” (“**CRS**”) designed to create a global standard for the automatic exchange of financial account information, similar to the information to be reported under FATCA. On 29 October 2014, fifty-one jurisdictions signed the multilateral competent authority agreement (“**Multilateral Agreement**”) that activates this automatic exchange of FATCA-like information in line with the CRS. Since then further jurisdictions have signed the Multilateral Agreement and in total over 100 jurisdictions have committed to adopting the CRS. Guernsey adopted the CRS with effect from 1 January 2016..

Under the CRS and legislation enacted in Guernsey to implement the CRS, certain disclosure requirements will be imposed in respect of certain Shareholders and Limited Partners who are, or are entities that are controlled by one or more natural persons who are, residents of any of the jurisdictions that have also adopted the CRS, unless a relevant exemption applies. Certain due diligence obligations will also be imposed. Where applicable, information that would need to be disclosed will include certain information about Shareholders and Limited Partners, their ultimate beneficial owners and/or controllers, and their investment in and returns from the Company, Master Fund II or, as the case may be, Master Fund III. The Company, Master Fund II and Master Fund III will be required to report this information each year in the prescribed format and manner as per local guidance. The CRS is implemented through Guernsey’s domestic legislation in accordance with guidance that is published in draft form and which is supplemented by guidance issued by the OECD.

Under the CRS, there is currently no reporting exemption for securities that are “regularly traded” on an established securities market, although it is expected that whilst a Share is held in uncertificated form through CREST, the holder of that Share will likely be a financial institution acting as an intermediary. Shareholders that own the Shares through a financial intermediary may be required to provide information to such financial intermediary in order to allow the financial intermediary to satisfy its obligations under the CRS.

**All prospective investors should consult with their own tax advisers regarding the possible implications of FATCA, the CRS and any other similar legislation and/or regulations on their investment in the Company.**

If the Company, Master Fund II or Master Fund III fails to comply with any due diligence and/or reporting requirements under Guernsey legislation implementing the US-Guernsey IGA and/or the CRS then the Company, Master Fund II or (as the case may be) Master Fund III could be subject to (in the case of the US-Guernsey IGA) US withholding tax on certain US source payments, and (in all cases) the imposition of financial penalties introduced pursuant to the relevant implementing regulations in Guernsey. Whilst the Company, Master Fund II and Master Fund III will seek to satisfy their obligations under the US-Guernsey IGA and the CRS and associated implementing legislation in Guernsey to avoid the imposition of any financial penalties under Guernsey law, the ability of the Company, Master Fund II and Master Fund III to satisfy such obligations will depend on receiving relevant information and/or documentation about each Shareholder and Limited Partner and the direct and indirect beneficial owners of the Shareholders and Limited Partners (if any). There can be no assurance that the Company, Master Fund II and Master Fund III will be able to satisfy such obligations.

### *Request for Information*

Each of the Company and the General Partner reserves the right to request from any Shareholder, investor or potential investor such information as the Company or the General Partner deems necessary to comply with FATCA, any FFI Agreement from time to time in force, any measures similar to FATCA such as the CRS, or any obligation arising under the implementation of any applicable intergovernmental agreement, including the US-Guernsey IGA and the Multilateral Agreement, relating to automatic exchange of information with any relevant competent authority.

## **UK Taxation**

The following statements are intended only as a general and non-exhaustive guide to certain general UK tax consequences of holding 2021 Shares and/or C Shares. The statements are based on current law and HMRC published practice as at the date of this document, both of which are subject to change (possibly with retrospective effect). They are of a general nature, do not constitute tax advice and apply only to Shareholders who are resident (and, in the case of individuals, domiciled) in the UK for UK tax purposes, who are the absolute beneficial owners of their shares in the Company and who hold their shares as an investment. They may not apply to certain classes of Shareholders including (but not limited to) dealers in securities, charities, registered pension schemes, collective investment schemes, persons who acquired their shares in the Company by reason of any office or employment or persons who acquired, hold or dispose of their shares otherwise than for *bona fide* commercial purposes or as part of arrangements to obtain a tax advantage.

Shareholders who are resident or domiciled for tax purposes in a jurisdiction other than the UK, or who are unsure about any aspect of their tax treatment, should consult their own professional tax advisers without delay.

### **13.5 The Company**

It is the intention of the Directors to continue to conduct the affairs of the Company so that the central management and control of the Company is not exercised in the UK and so that the Company does not carry out any trade in the UK (whether or not through a permanent establishment situated there). The Company is not intending to invest in any UK real property. On this basis, the Company should not generally be liable for UK taxation on its income and gains, other than on certain types of income deriving from a UK source.

Interest and other income received by the Company which has a UK source may be subject to withholding taxes in the UK. However, there will be no UK withholding tax on interest payments made by companies on certain types of bonds which, for the purposes of the relevant UK tax rules, fall to be treated as listed on a recognised stock exchange.

### **13.6 No withholding on dividends**

The Company will not be required to withhold UK tax when paying a dividend on the Shares.

### **13.7 Shareholders**

#### *Offshore fund rules*

The Directors consider that the 2021 Shares class and the C Shares would each constitute a separate “offshore fund” for the purposes of UK Offshore Fund Rules. The Company intends to apply to HMRC for approval to treat the 2021 Shares and the C Shares as “reporting funds” for these purposes.

Given the nature of its investments, the Company is also considered to be a “bond fund” for the purposes of UK taxation. In this regard, Shareholders are referred to Chapter 3 of Part 6 CTA 2009 and Section 378A ITTOIA 2005. Broadly, an offshore fund is treated as a bond fund if, at any time in an accounting period, more than 60 per cent. of the assets attributable to it are “qualifying investments”. For these purposes “qualifying investments” include securities and certain other interest-bearing or economically similar investments.

The statements below assume that the 2021 Shares class and the C Shares class each constitute an offshore fund approved by HMRC as a reporting fund. The statements also assume that each such class of shares would be treated as a “bond fund”. It cannot be

guaranteed that this treatment will be obtained or, as the case may be, maintained. Any Shareholder who has any doubt as to the effect of any class of shares being treated (or not being treated) as such should consult an appropriate professional adviser.

Any Shareholder who is in any doubt as to the tax consequences of holding an interest in a reporting offshore fund which constitutes a bond fund, including the tax treatment of reported income, should consult their own professional advisers without delay.

#### *Shareholders who are individuals*

As the holder of an interest in a reporting offshore fund, UK Shareholders who are individuals will be subject to UK tax on income by reference to both (i) distributions actually received from the Company and (ii) if the Shareholder is treated as holding Shares at the end of a relevant reporting period, the amount (if any) by which the reported income attributable to his 2021 Shares or C Shares exceeds the amount actually distributed in respect of the Shares for that period (the “excess reporting income amount”). Accordingly, such a Shareholder may be subject to tax on more income than he receives. Distributions received and any relevant excess reporting income amounts will be taxed as if they were payments of interest at the applicable marginal rate of tax for the individual.

The Company will provide details of any excess reporting income amount per 2021 Share and C Share to Shareholders who hold an investment in the Company at the end of the relevant reporting period. Reporting periods will generally be the same as the Company's accounting periods.

A disposal of 2021 Shares or C Shares by a Shareholder who is an individual should (assuming the Shares constitute an interest in a reporting fund) generally be treated as a disposal of a capital asset subject to capital gains tax and may, depending on the Shareholder's individual circumstances (including the availability of exemptions, reliefs and allowable losses), give rise to a liability to capital gains tax. Shareholders should note that if Shares held by him are not, or have ceased to be, treated as a reporting fund, a disposal of such Shares may be subject to UK tax on income, rather than capital gains tax.

A Conversion of C Shares into New 2021 Shares should generally be treated as a reorganisation for the purposes of capital gains tax. Accordingly a Conversion should not generally give rise to a disposal for the purposes of capital gains tax and instead the New 2021 Shares should be treated as the same asset as and acquired at the same time as and for the same consideration as were the relevant C Shares.

#### *Shareholders within the charge to corporation tax*

For Shareholders within the charge to corporation tax, the 2021 Shares and C Shares would (for each accounting period of the Shareholder during which the shares have at any time been a bond fund) be treated as if they were a creditor relationship under the “loan relationships regime”. For these purposes, the credits and debits to be brought into account would fall to be determined on the basis of fair value accounting, and the Shareholder would generally be taxed (or obtain relief from tax) in accordance with such accounting treatment. Accordingly, such persons may be subject to corporation tax on an unrealised increase in the value of their 2021 Shares or C Shares or, as the case may be, obtain relief against corporation tax by reference to an unrealised reduction in the value of their Shares.

#### *ISAs and SIPPs*

Investors resident in the United Kingdom who are considering acquiring 2021 Shares or C Shares should consult their own tax and/or investment advisers in relation to the eligibility of the Shares for ISAs and SIPPs.

It is not possible for 2021 Shares or C Shares under the Placing Programme to be issued directly to an ISA Manager for inclusion in an ISA. However, Shares acquired subsequently in the market should be eligible for inclusion in an ISA.

The Shares may be eligible for inclusion in a SIPP, subject to the trustees/administrators of the relevant SIPP having first satisfied themselves that the proposed investment falls within the permitted investment/non-taxable property rules that apply to UK registered SIPPs.

### 13.8 Stamp duty and Stamp Duty Reserve Tax (“SDRT”)

No UK stamp duty or SDRT will arise on the issue of Shares pursuant to the Placing Programme.

No SDRT will be payable on an agreement to transfer 2021 Shares or C Shares provided that the Shares are not registered in any register kept in the UK by or on behalf of the Company and that neither the 2021 Shares nor the C Shares are paired with shares issued by a company incorporated in the UK.

Subject to an exemption for certain low value transactions where the consideration is less than £1000, UK stamp duty (at the rate of 0.5% of the value of the consideration, rounded up where necessary to the nearest £5) is chargeable in respect of any instrument transferring 2021 Shares or C Shares which is executed in the UK or which relates to any matter or thing done or to be done in the UK. However, in practice it should generally not be necessary to pay UK stamp duty in respect of any such instrument unless the instrument is required to be adduced in evidence before the UK courts in civil proceedings or for any other official purposes in the UK.

## 14 Litigation

- 14.1 There are no governmental, legal or arbitration proceedings, and the Company is not aware of any governmental, legal or arbitration proceedings pending or threatened, during the 12 months preceding the date of this Prospectus which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Company.
- 14.2 There are no governmental, legal or arbitration proceedings, and Master Fund II is not aware of any governmental, legal or arbitration proceedings pending or threatened, during the 12 months preceding the date of this Prospectus which may have, or have had in the recent past, a significant effect on the financial position or profitability of Master Fund II.
- 14.3 There are no governmental, legal or arbitration proceedings, and Master Fund III is not aware of any governmental, legal or arbitration proceedings pending or threatened, during the 12 months preceding the date of this Prospectus which may have, or have had in the recent past, a significant effect on the financial position or profitability of Master Fund III.

## 15 Material contracts relating to the Company

Save as described below, the Company has not (i) entered into any material contracts (other than contracts in the ordinary course of business) within the two years immediately preceding the publication of this document; or (ii) entered into any contracts that contain provisions under which the Company has any obligation or entitlement that is material to the Company as at the date of this document.

### 15.1 Placing Agreement

A Placing Agreement dated 26 March 2021 between the Company, the Investment Adviser, Numis and Liberum, pursuant to which Numis and Liberum agreed to act as joint bookrunners, brokers and financial advisers in connection with the publication of this document, the proposed redesignation of the 2021 Shares under the Reorganisation Proposal (the “**2017 Share Redesignation**”) and the Placing Programme. Numis and Liberum have both agreed, as agent of the Company, to use their respective reasonable endeavours to procure Placees to subscribe for Shares pursuant to each Placing under the Placing Programme at the relevant placing price. In consideration for the provision of their respective services:

- (i) in respect of the 2017 Share Redesignation, a reorganisation fee equal to 0.275 per cent. of the aggregate net asset value of the 2021 Shares in issue immediately following completion of the 2017 Share Redesignation, to be calculated at the time of completion of the 2017 Share Redesignation and allocated between Numis and Liberum on the following basis:
- (a) 60 per cent. to Numis; and
  - (b) 40 per cent. to Liberum;

- (ii) in respect of the Secondary Market Placing:
  - (c) a commission equal to 0.75 per cent. of the Gross Bargain Value of the Secondary Market Placing, to be allocated equally between Numis and Liberum, (and “**Gross Bargain Value**” means the total gross consideration payable by for the 2017 Shares which Liberum and Numis have acquired for the purpose of the Secondary Market Placing); and
  - (d) in relation to each person to whom Shares were placed under the Secondary Market Placing and in respect of whom such bookrunner was the broker, an additional amount equal to 0.5 per cent. of the value of the Shares acquired by that bookrunner for the purpose of the Secondary Market Placing.

and

- (iii) in respect of each Placing made in accordance with the Placing Programme, the aggregate of:
  - (e) a commission equal to 1.25 per cent. of the aggregate value at the Placing Price of the Shares issued pursuant to that Placing, to be allocated equally between Numis and Liberum; and
  - (f) in relation to each Placee to whom Shares were issued pursuant to that Placing and in respect of whom such bookrunner was the broker, an additional amount equal to 0.5 per cent. of the value of the Shares issued to such Placee under the relevant Placing to that bookrunner.

The Company has agreed to pay all of the properly incurred costs and expenses of, and incidental to, each Placing under the Placing Programme.

The Company and the Investment Adviser have given warranties to Numis and Liberum concerning, *inter alia*, the accuracy of the information contained in this document. The Company and the Investment Adviser have also given indemnities to Numis and Liberum. The warranties given by the Company and the Investment Adviser are standard for an agreement of this nature. The Placing Agreement is governed by the laws of England and Wales.

## 15.2 Contribution Agreement

Please refer to paragraph 6 of Part 1 of this document.

## 15.3 Investment Advisory Agreement

Please refer to paragraph 8 of Part 1 of this document.

The Investment Adviser has the benefit of an indemnity from the Company in relation to liabilities incurred by the Investment Adviser in the discharge of its duties other than those arising by reason of any negligence, wilful default, fraud or breach of agreement of or by the Investment Adviser or any party to whom it has delegated any of its functions under the investment advisory agreement.

The Investment Adviser's appointment is terminable by either party on not less than 6 months' notice. The investment advisory agreement may also be terminated by either the Investment Adviser or the Company if the other party has committed a material and continuing breach of the agreement, has gone into liquidation or receivership, or by the Company if the Shareholders do not approve a Continuation Resolution proposed in accordance with the Articles.

## 15.4 Amended and Restated Administration and Secretarial Agreement

Under the Amended and Restated Administration and Secretarial Agreement between the Administrator and the Company, the Administrator has agreed to provide company administration and secretarial services to the Company. A fixed administration fee of US\$32,000 per annum, is payable plus an additional fixed fee of US\$6,000 per annum will be charged for running the additional C Share class/tranche until such C Shares are converted into 2021 Shares. Company Secretarial fees are charged on a time spent basis. Such fees are payable quarterly in arrears. A one-off fee launch fee for work undertaken including updating the financial position and prospectus procedure memorandum, and for



preparing any additional accounts is also payable. Fee will also be charged for assisting with EU/UK AIFMD reporting, work for US FATCA and CRS reporting. The Administrator is also entitled to reimbursement of out of pocket costs and expenses properly incurred by it in carrying out its duties.

The agreement contains an indemnity from the Company in favour of and all directors, officers and employees of the Administrator and any agent, sub-contractor or delegate appointed by the Administrator) against any liabilities which they may incur in carrying out their duties under the agreement, save in the case of their fraud, gross negligence, material breach of the agreement, dishonesty, wilful neglect, wilful misconduct or bad faith.

The agreement may be terminated by either party serving on the other party not less than 90 calendar days' notice in writing given so as to expire on the last day of any calendar month, or by immediate notice in writing in circumstances including, *inter alia*, material breach of the agreement or insolvency of any party.

#### 15.5 Custodian Agreement

The Custodian has been appointed to act as custodian of the Company pursuant to the terms and provisions of a Custodian Agreement. The Custodian is entitled to a fees for specific transactions. The Custodian (for itself and as trustee for each of its branches and subsidiaries and for the directors, officers and employees of the Custodian and each of its branches and subsidiaries) will also be indemnified by the Company all claims, losses, liabilities, damages, judgements, costs, fees and expenses (including reasonable legal fees and expenses) of any kind or nature arising directly or indirectly by it out of the performance of the services under the Custodian Agreement, other than those which result from the gross negligence, wilful default or fraud of the Custodian or any of its branches or subsidiaries or of any sub-custodian..

The Custodian is authorised by the Company to appoint such agents as the Custodian in its discretion thinks fit, including, without limitation, any sub-custodian (which may include an affiliate of the Custodian), on the basis that:

- a) A sub-custodian may perform the services or hold the relevant assets under the Custodian Agreement on such terms as the sub-custodian may require, subject to any applicable laws and regulation in the jurisdiction where the sub-custodian is located;
- b) A sub-custodian may be permitted to appoint other agents to perform ancillary services and the Custodian may have no directly enforceable rights against the ultimate appointee; and
- c) The rights of the Custodian against any sub-custodian may consists only of a contractual claim.

The Custodian also reserves the right to decline to accept Shares in jurisdictions where it may not have the ability to provide a functional service. The Custodian will provide a list of jurisdictions to the Company upon request where it is able to provide a functional service and will use reasonable endeavours to notify the Company prior to any such amendment.

None of the Custodian, its directors, officers, employees or shareholders shall be liable or responsible to the Company for any liability which may directly or indirectly result from:

- a) the failure of the Company to comply with any of its obligations under the Custodian Agreement;
- b) any acts, omissions, failure to act or the default or insolvency in relation to of any sub-custodian which is not a member of the BNP Paribas Group regardless of any negligence, wilful default, or fraud on the part of any sub-custodian which is not a member of the BNP Paribas Group;
- c) any acts, omissions, failure to act or the default or insolvency in relation to of any sub-custodian which is a member of the BNP Paribas Group where such action arose as a result of the negligence, wilful default, or fraud on the part of any sub-custodian which is a member of the BNP Paribas Group;
- d) any acts, omissions, failure to act or the default or insolvency of any depository, or any agent, broker or bank.

- e) any loss suffered or incurred by the Company or any other person as a result of the receipt or acceptance of fraudulent, forged or invalid securities or securities that are otherwise not freely transferable or deliverable without encumbrance in any relevant market.
- f) any loss arising from the occurrence of any event that may affect the transferability, convertibility or availability of any currency;
- g) any loss arising from a force majeure event or the general risks of investment in or the holding of assets in a jurisdiction. Material contracts relating to Master Fund II.

## **16 Material contracts relating to Master Fund II**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by Master Fund II and are, or may be, material to Master Fund II:

### **16.1 MFII Partnership Agreement**

#### *Commitments*

The Commitments comprise Loan Commitment and Capital Contribution in the ratio of 99.999 per cent. to 0.001 per cent. The Capital Contribution shall not be returned until the termination of Master Fund II. Each Limited Partner will advance loans to Master Fund II at times requested by the General Partner giving at least 10 Business Days' prior written notice, unless such notice is waived by the Limited Partner. Loans will be advanced by Limited Partners *pro rata* to their Loan Commitments (provided that, for the avoidance of doubt, further advances shall not be paid from a Limited Partner once its Undrawn Loan Commitment is zero).

#### *Investment Limitations*

**Diversification:** Master Fund II will not make investments that would cause it to have exposure to a single borrower or issuer of a debt security (or guarantor thereof) ("corporate issuer") exceeding 5 per cent. of Master Fund II's Aggregate Gross Assets at the time of investment. For the avoidance of doubt, special purpose vehicles such as issuers of CLOs will not be considered corporate issuers.

**Geographical Limitations:** Master Fund II will not make investments that cause it to have exposure of more than 10 per cent. of the Aggregate Gross Assets at the time of investment to corporate issuers headquartered and operating principally outside the European Union, the United Kingdom, the United States and Canada.

**Derivatives:** Master Fund II will not invest in publicly traded options, futures or financial derivatives except for efficient portfolio management in connection with an Investment, proposed Investment or Investments generally.

**Non-Corporate Loans:** Master Fund II will not invest in mortgage backed securities or asset backed securities or other asset-backed obligations backed by mortgages or other non-corporate loans; provided that Master Fund II may invest in portfolios which may include companies with substantial real estate holdings.

Master Fund II will at all times invest and manage its assets with the objective of spreading investment risk and in accordance with its investment policy. It will not invest in listed closed-ended investment funds. It must not conduct any trading activity which is significant in the context of its group as a whole.

#### *Borrowings*

Master Fund II will not have any borrowings except for short term borrowings not to exceed 20 per cent. of Master Fund II NAV and borrowings of investment holding companies except borrowing that is non-recourse to Master Fund II and is used to acquire CLOs or other vehicles or structures. Master Fund II's investment policy does not limit such non-recourse borrowings.

### *Commitment Period*

Commitments will be drawn down from time to time until 12 June 2019, subject to extension by the General Partner, at its discretion, by up to two additional consecutive one year periods<sup>2</sup>. Thereafter, the Limited Partners will be released from any further obligation with respect to their Undrawn Loan Commitments, except as necessary to (i) cover expenses of Master Fund II and MFII Management Fees; (ii) complete Investments by Master Fund II in respect of transactions committed to by Master Fund II prior to the end of the Commitment Period; and (iii) subject to MFII Advisory Committee consent make follow-on Investments (i.e., Investments made for the purpose of protecting or enhancing an existing Investment)

### *Closings*

Following the admission of the Company to Master Fund II as a Limited Partner, the General Partner may accept Commitments by additional Limited Partners, and increases in Commitments by existing Limited Partners, until 5 April 2019 subject to extension by the General Partner, at its discretion, by up to two additional consecutive one year periods<sup>3</sup>. Limited Partners admitted, and existing Limited Partners increasing their Commitments, subsequent to the MFII Initial Closing Date will be allocated a share in the profits of Master Fund III at the time of drawdown of their Loan Commitments equal to the amount drawn as a percentage of the Adjusted MFII NAV at the drawdown date. Adjusted MFII NAV will include an adjustment for a share of Master Fund II's up-front expenses. The share in profits of Master Fund II of existing Limited Partners will be reduced proportionately so that the sum of all shares in profits of Master Fund II equals 100 per cent.

### *Term*

Master Fund II's term will expire upon the later of (i) five years following the end of the Commitment Period; and (ii) such date on which Master Fund II ceases to hold any investment in a CLO issuer which was made during the Commitment Period and for which Master Fund II has acted as originator for risk retention purposes.

### *Distributions*

Master Fund II will make periodic distributions of income to Limited Partners with the aim of distributing all net income each year. The General Partner will not be permitted to cause Master Fund II to make a distribution if Master Fund II does not have sufficient cash available to make the distribution or if the distribution would leave Master Fund II with insufficient funds or profits to meet its expenses (including the MFII Management Fee) in the current accounting period or otherwise render Master Fund II insolvent.

All proceeds from the realisation of investments will be distributed to Partners or retained to cover the expenses of Master Fund II or retained for the purposes of reinvestment (in the latter to case restricted after the Commitment Period only to follow-on Investments (i.e., Investments made for the purpose of protecting or enhancing an existing Investment) not exceeding an amount equal to 15 per cent. of the aggregate Commitments upon the later of (i) five years following the end of the Commitment Period; and (ii) such date on which Master Fund II ceases to hold any investment in a CLO issuer which was made during the Commitment Period and for which Master Fund II has acted as originator for risk retention purposes).

All income and proceeds from realisations of investments that are available for distribution (after payment of expenses and liabilities of Master Fund II) shall be allocated to Limited Partners in accordance with their respective shares in the profits of Master Fund II and applied in the following manner (and references to the Limited Partner below shall only apply to the MFII Founder Partner if and to the extent it has made a Commitment):

- (a) first, 100 per cent. to the General Partner until it has been paid its MFII Management Fee;
- (b) second, to repay the Limited Partner's Outstanding Loan;

<sup>2</sup> Such period was indeed extended by two additional consecutive one year periods, to June 2021.

<sup>3</sup> The Final Closing Date has indeed been extended up to 5 April 2021.

- (c) third, to the Limited Partner until the Limited Partner has reached its preferred return threshold (being an amount equivalent to an IRR of 7 per cent. on the Outstanding Loan of such Limited Partner); and
- (d) fourth, (i) 100 per cent to the Limited Partner in respect of capital and income proceeds arising from its investment in FOIF I LP that were not reinvested in Master Fund II; and (ii) 85 per cent to the Limited Partner and 15 per cent. to the MFII Founder Partner.

At the end of the life of Master Fund II any assets remaining will be distributed. The General Partner anticipates the distribution being made in cash. The General Partner may, in its discretion, distribute all or any of Master Fund II assets in specie upon termination of Master Fund II. The Company will be entitled to require the General Partner (or, where applicable, the liquidating trustee of Master Fund II) to continue to hold title to such assets, at the Company's cost, solely for the benefit of the Company and use reasonable efforts to sell such assets on the Company's behalf on terms acceptable to the Company. For the avoidance of doubt the distribution shall be deemed to have been made at the time of the proposed in specie distribution.

#### *MFII Management Fee*

The General Partner will be entitled to a fee monthly in arrear during the term of Master Fund II (the "MFII Management Fee"), starting on the MFII Initial Closing Date. The MFII Management Fee will equal 1.5 per cent. per annum of Master Fund II NAV (and *pro rata* in respect of accounting periods of more or less than one year).

The General Partner may agree rebate arrangements with any Limited Partner. In particular, any Limited Partner that makes a Commitment of US\$150 million or more (including for the avoidance of doubt the Company) shall be entitled to a rebate of its share of the MFII Management Fee such that it will pay a MFII Management Fee of 1 per cent. per annum of its share of Master Fund II NAV.

#### *Ongoing Expenses*

Master Fund II is responsible for all ongoing expenses, direct or indirect, incurred in relation to the administration and business of Master Fund II, including, without limitation, costs of printing and circulating reports and notices, all introduction and similar fees, abort costs, legal fees, directors' fees, administrators', auditors' and valuers' fees, registration fees, accounting expenses (including any expenses associated with the preparation of financial statements and tax returns), fees and expenses of holding any meetings of Master Fund II or the MFII Advisory Committee, any costs associated with compliance and advice in relation to compliance with the EU AIFMD, UK AIFMD, CRS, FATCA, any tax information arrangements and MiFID II and reasonable and attributable out-of-pocket expenses of placement agents, brokers and intermediaries (but excluding commissions payable to placement agents, brokers and intermediaries which shall be borne by the General Partner or its associates), fees and expenses incurred in relation to any custodian or nominee of Master Fund II's assets and the MFII Advisory Committee, fees and expenses relating to the admission of investors, establishment and ongoing fees and expenses of any conduit entity, external consultants' fees, advertising costs, bank charges, rating agencies, information services, independent price vendors, costs of meetings of Investors, insurance costs, borrowing costs, hedging costs, extraordinary expenses (such as litigation), costs of structuring, establishing, operating and liquidating any investment holding company, costs of any restructuring of Master Fund II or Investments, taxes, duties, fees and governmental charges incurred by Master Fund II and all stamp duties, costs associated with the liquidation of Master Fund II and fees of lawyers, accountants, auditors, valuers and any external consultants arising in respect of identifying, evaluating, negotiating, acquiring, holding, monitoring, protecting and realising Investments.

#### *Other Fees*

100 per cent. of all transaction, directors', consulting, investment banking, closing, topping, break-up and other similar fees ("Other Fees") received by the General Partner, the Investment Adviser or their associates as a result of an Investment by Master Fund II (but excluding any management fees received in relation to an Investment) will be applied to

reduce the MFII Management Fee for the following period. To the extent such offsets would reduce the MFII Management Fee for a given period below zero, such offsets will be carried forward and reduce future instalments of the MFII Management Fee.

#### *Transfer of Interests and Withdrawal*

Limited Partners may transfer their interests in Master Fund II with the prior written consent of the General Partner, whose consent may be withheld in its sole discretion (or where to an associate, whose consent may not be unreasonably withheld). A Limited Partner may be required to withdraw from Master Fund II if the General Partner determines that the continuance of such Limited Partner as a partner would cause Master Fund II to be in breach of any law or regulation or materially adversely affect Master Fund II.

#### *Disposal of Interests*

A Limited Partner may dispose of its interest in Master Fund II to avoid or cure a legal or regulatory breach

#### *Excused Investors*

A Limited Partner may be excused from funding an Investment if previously agreed in writing by the General Partner or to the extent that either in the opinion of counsel to the General Partner or if it provides the General Partner with a or if it provides the General Partner with a certificate by an executive officer of the excused investor (which, if the General Partner so requires, shall also be supported by an opinion of counsel reasonably satisfactory to the General Partner) to the effect that its participation would violate a law or regulation or breach any governmental licence, permit or similar approval applicable to it. The General Partner may issue new drawdown notices for further drawdowns to the other Limited Partners to the extent of their Undrawn Loan Commitments.

#### *Amendments to the MFII Partnership Agreement*

The MFII Partnership Agreement and the investment policy of Master Fund II may be amended by the General Partner by a Special Consent (i.e. the consent of Limited Partners holding 75 per cent. or more of the Total Commitments), except that no amendment may (i) impose upon any Limited Partner any obligation to make further payments to Master Fund II beyond the amount of its Capital Contribution and Loan Commitment or (ii) increase the liabilities or obligations of, or diminishes the rights or protections of, a particular Limited Partner or a particular group of Limited Partners differently than the other Limited Partners without the consent of all such Partners adversely affected thereby or (iii) cause the Company to be in breach of the Listing Rules.

Notwithstanding the foregoing, the General Partner may amend the MFII Partnership Agreement without the consent of any Limited Partner at any time to, among other circumstances set forth in the MFII Partnership Agreement, (i) reflect any amendments or additions to The Limited Partnership (Guernsey) Law, 1995 or ERISA or related regulations and (ii) to make changes that do not materially adversely affect the rights or obligations of any Limited Partners and the amendment is not objected to by Limited Partners holding 10 per cent. or more of the Total Commitments within 10 Business Days of notice being given of the proposed amendment.

#### *Feeder Funds*

The General Partner or any associate thereof may establish one or more Limited Partners as a feeder fund for certain investors on such terms as it may determine and agree with the limited partners or such other investors in such feeder funds.

#### *Parallel Funds*

Additional limited partnerships or other vehicles may be formed at their own cost to invest alongside Master Fund II to accommodate the legal, tax, regulatory or other similar considerations of certain investors. Any investments by Parallel Funds in Investments will be made proportionately, based on the respective remaining capital commitments of Master Fund II and each Parallel Fund, on substantially the same terms as Master Fund II, subject to applicable legal, tax, regulatory or other similar considerations, and each Parallel Fund will generally share proportionately in Investment expenses.



#### *Alternative Investment Vehicles*

For legal, tax, regulatory or other reasons, the General Partner may determine that it is in the best interests of the Limited Partners that an Investment be made through an alternative investment vehicle. The General Partner will have the authority to create such vehicles in such circumstances and cause some or all of the Limited Partners' indirect interests in such Investment to be held through such an alternative vehicle. For purposes of calculating the Carried Interest and MFII Management Fees, any Investments held in an alternative vehicle will be treated as if held by Master Fund II.

#### *MFII Advisory Committee*

A MFII Advisory Committee shall be established comprising representatives of the Limited Partners selected by the General Partner. The MFII Advisory Committee will provide advice and counsel to the General Partner in connection with matters related to Master Fund II as requested by the General Partner and will be required to approve certain matters, including conflicts of interest. The Company has the right to appoint at least one member to the MFII Advisory Committee throughout the life of Master Fund II and for the avoidance of doubt the MFII Advisory Committee will comprise only the representative of the Company at the MFII Initial Closing Date. For so long as the Company holds more than 50 per cent. of the Total Commitments, it will have the right to appoint a majority of members of the MFII Advisory Committee.

The General Partner is required to consult with the MFII Advisory Committee prior to investing in any Investment which is managed or advised by the General Partner, the Investment Adviser or an Affiliate.

#### *Co-Investment*

The General Partner may, but is not obligated to, provide co-investment opportunities to Limited Partners prior to making such opportunities available to third parties.

#### *Early Termination*

Master Fund II will terminate early upon (i) the bankruptcy, insolvency, dissolution or liquidation of the General Partner, (ii) the agreement as to such termination of the General Partner and the MFII Founder Partner and of the Investors by Special Consent; (iii) notice served on the General Partner following a judgment by a court of law of a material breach of the MFII Partnership Agreement (including a failure to comply in any material respect with the Investment Policy), fraud, wilful illegal acts, wilful default or gross negligence by the General Partner or the Investment Adviser which results in Master Fund II and/or any of the Limited Partners suffering material financial disadvantage, (iv) the service of notice by the General Partner that all Investments have been realised and the realisation proceeds have been distributed or (v) the withdrawal of the General Partner, in each case unless the Limited Partners vote by Majority Consent to replace the General Partner and continue the fund.

#### *Key Man*

If until the end of the Commitment Period any two of Miguel Ramos Fuentenebro and Roger Coyle (including any additional named executives or replacements approved by the MFII Advisory Committee) (the "Key Men") cease to be active members or officers of the General Partner, the Investment Adviser or their associates, the MFII Advisory Committee will have the right to suspend the Commitment Period such that Master Fund III will no longer be able to make new investments (except for investments already committed to). If such suspension is not lifted by a decision of the MFII Advisory Committee within 6 months, the Commitment Period will terminate (if it has not terminated already). The MFII Advisory Committee may approve replacement Key Men at any time (whether or not during a suspension of the Commitment Period). The General Partner shall notify the Limited Partner of both Miguel Ramos Fuentenebro and Roger Coyle cease to devote their time as per above.

#### *Financial Statements and Reports*

The General Partner will prepare financial statements on an annual basis in accordance with such internationally recognised accounting principles and practices as may be agreed with the auditors from time to time. Master Fund II's accounting reference date is 31 December.

The General Partner shall cause such financial statements to be audited by a firm of internationally recognised chartered accountants within 4 months of 31 December each year. Each Limited Partner will receive audited annual financial statements for Master Fund II.

Within 2 months of the end of each period of three months ending on the last day of 31 March, 30 June, 30 September and 31 December in each year, the General Partner shall prepare and send to each Limited Partner a report comprising, *inter alia*, a statement of the Investments, details of the Investments purchased, sold and otherwise disposed of during the relevant period and details of all borrowings entered into on behalf of Master Fund II and all guarantees, indemnities, covenants and undertakings given in favour of third parties on behalf of Master Fund II. The reports will include the General Partner's quarterly unaudited valuations of Investments. Each Limited Partner will also receive a quarterly individual statement showing its financial position in respect of its interest.

The Administrator's valuation of Master Fund II will be calculated as at the close of business on the last business day of every month by the Administrator and the General Partner, upon request will notify a Limited Partner by email within 10 Business Days of the end of the relevant month provided that such notification shall first be made to the Company and shall not be made to the other Limited Partners until the earlier of: (i) the Company having released its Net Asset Value per Share through the Regulatory Information Service; and (ii) 24 hours having passed since such notification to the Company (provided that such 24 hours shall only run during the 24 hours of a Business Day).

#### *Meetings*

The General Partner will organise an annual meeting of the Limited Partners and will present a report on the progress of Master Fund II at the meeting.

#### *Indemnification; Limitation on Liability*

To the fullest extent permitted by applicable law, Master Fund II will indemnify the General Partner, the MFII Founder Partner and the Investment Adviser, their respective associates, director, officers, shareholders, partners, agents, consultants and employees and members of the MFII Advisory Committee against all claims, liabilities, costs or expenses incurred by an indemnified person by reason of their holding such positions, except resulting from the indemnified person's bad faith, fraud, gross negligence or wilful misconduct, reckless disregard or wilful breach.

Partners may be required to re-advance *pro rata* to Master Fund II, as an addition to or to create an Outstanding Loan, any amount distributed to it pursuant to the MFII Partnership Agreement to the extent such sums are required by Master Fund II to satisfy any indemnity referred to above provided that no Partner is obliged to re-advance such sums more than six months after the dissolution of Master Fund II.

#### *Confidentiality*

Limited Partners will not be permitted to disclose any confidential information (including any financial statements and reports) other than to its professional advisers or to its shareholders, associates, employees and directors (if they are under an equivalent duty of confidentiality) or as required by law or by any regulatory or tax authority. The Company may disclose to its shareholders fund level information restricted to the extent of its Commitment drawn down and distributions made and the MFII Management Fee and expenses attributable to its interest in Master Fund II, in addition to information regarding the Investments which is designated as disclosable by the General Partner. The latter will include, but not be limited to, the top ten underlying loan exposures and the geographic distribution and the industry sector distribution of underlying loan exposures in Master Fund II portfolio.

### **16.2 MFII Investment Advisory Agreement**

Please refer to paragraph 11 of Part 2 of this document.

### 16.3 **Amended and Restated GP Administration and Secretarial Agreement relating to Master Fund II**

Under the Amended and Restated GP Administration and Secretarial Agreement between the Administrator and the General Partner (acting in its own capacity and in its capacity as general partner of a number of limited partnerships, including without limitation Master Fund II, Master Fund III, MFII Founder Partner and MFIII Founder Partner), the Administrator has agreed to provide administration, accounting and secretarial services to the General Partner, Master Fund II, Master Fund III, MFII Founder Partner and MFIII Founder Partner.

The Administrator is entitled to receive a general partner fee of US\$25,020 per annum, payable monthly in arrears.

The Administrator is also entitled to a fee relating to the provision of services to Master Fund II which is 0.03 per cent. of Master Fund II NAV subject to a minimum fee of US\$69,454 per annum, payable monthly in arrears, separate annual fees relating to the provision of services to MFII Founder Partner, a company secretarial fee (charged calculated on time spent) and other miscellaneous fees, such as a transaction fee (in respect of Master Fund II) and FATCA/CRS-related fees.

The Administrator is also entitled to fee relating to the provision of services to Master Fund III which is 0.03 per cent. of Master Fund III NAV subject to a minimum fee of US\$45,000 annum, payable monthly in arrears, separate annual fees relating to the provision of services to MFIII Founder Partner, a company secretarial fee (charged calculated on time spent) and other miscellaneous fees, such as a transaction fee (in respect of Master Fund III), a one-off establishment fee in respect of Master Fund III and FATCA/CRS-related fees. The Administrator is also entitled to reimbursement of out of pocket costs and expenses properly incurred by it in carrying out its duties.

The agreement contains an indemnity from the General Partner in favour of and all directors, officers and employees of the Administrator and any agent, sub-contractor or delegate appointed by the Administrator) against any liabilities, obligations, direct losses, damages, penalties, actions, judgements, legal costs, expenses or disbursements which they may incur in carrying out their duties under the agreement, save in the case of their fraud, gross negligence, material breach of the agreement, dishonesty, wilful neglect, wilful misconduct or bad faith.

The agreement may be terminated by either party serving on the other party not less than 90 calendar days' notice in writing, or by immediate notice in writing in circumstances including, *inter alia*, material breach of the agreement or insolvency of any party.

### 16.4 **MFII Custodian Agreement**

The Custodian has been appointed to act as custodian of Master Fund II pursuant to the terms and provisions of the MFII Custodian Agreement. The Custodian is entitled to a minimum annual custody fee of US\$30,000 as well as fees for specific transactions. The Custodian (for itself and as trustee for each of its branches and subsidiaries and for the directors, officers and employees of the Custodian and each of its branches and subsidiaries) will also be indemnified by Master Fund II all claims, losses, liabilities, damages, judgements, costs, fees and expenses (including reasonable legal fees and expenses) of any kind or nature arising directly or indirectly by it out of the performance of the services under the Custodian Agreement, other than those which result from the gross negligence, wilful default or fraud of the Custodian or any of its branches or subsidiaries or of any sub-custodian.

The Custodian is authorised by Master Fund II to appoint such agents as the Custodian in its discretion thinks fit, including, without limitation, any sub-custodian (which may include an affiliate of the Custodian), on the basis that:

- a) A sub-custodian may perform the services or hold the relevant assets under the Custodian Agreement on such terms as the sub-custodian may require, subject to any applicable laws and regulation in the jurisdiction where the sub-custodian is located;
- b) A sub-custodian may be permitted to appoint other agents to perform ancillary services and the Custodian may have no directly enforceable rights against the ultimate appointee; and

- c) The rights of the Custodian against any sub-custodian may consist only of a contractual claim.

The Custodian also reserves the right to decline to accept Shares in jurisdictions where it may not have the ability to provide a functional service. The Custodian will provide a list of jurisdictions to Master Fund II upon request where it is able to provide a functional service and will use reasonable endeavours to notify the Company prior to any such amendment.

None of the Custodian, its directors, officers, employees or shareholders shall be liable or responsible Master Fund II for any liability which may directly or indirectly result from:

- a) the failure of Master Fund II to comply with any of its obligations under the Custodian Agreement;
- b) any acts, omissions, failure to act or the default or insolvency in relation to of any sub-custodian which is not a member of the BNP Paribas Group regardless of any negligence, wilful default, or fraud on the part of any sub-custodian which is not a member of the BNP Paribas Group;
- c) any acts, omissions, failure to act or the default or insolvency in relation to of any sub-custodian which is a member of the BNP Paribas Group where such action arose as a result of the negligence, wilful default, or fraud on the part of any sub-custodian which is a member of the BNP Paribas Group;
- d) any acts, omissions, failure to act or the default or insolvency of any depository, or any agent, broker or bank.
- e) any loss suffered or incurred by Master Fund II or any other person as a result of the receipt or acceptance of fraudulent, forged or invalid securities or securities that are otherwise not freely transferable or deliverable without encumbrance in any relevant market.
- f) any loss arising from the occurrence of any event that may affect the transferability, convertibility or availability of any currency;

any loss arising from a force majeure event or the general risks of investment in or the holding of assets in a jurisdiction..

#### **16.5 MFII Subscription Agreement**

The Company entered into the MFII Subscription Agreement with the General Partner (as general partner of Master Fund II) on 9 March 2017. Pursuant to the MFII Subscription Agreement, the Company agreed to become a Limited Partner and made a commitment to Master Fund II (comprising a Loan Commitment and a Capital Contribution) and agreed to procure the transfer of the certain assets to Master Fund II.

The MFII Subscription Agreement contains a provision whereby the Company indemnifies Master Fund II, the General Partner and the other partners in respect of all liabilities, actions, proceedings, claims, costs, demands, damages and expenses (including reasonable legal fees) incurred or threatened by reason of any confirmation, declaration, representation or warranty given by the Company in the MFII Subscription Agreement being untrue.

#### **16.6 Subscription Agreement entered into with other Limited Partners of Master Fund II**

In addition to the MFII Subscription Agreement mentioned in paragraph 16.5 above, each Limited Partner of Master Fund II (other than the Company) also entered into a separate subscription agreement with the General Partner (as general partner of Master Fund II). Pursuant to each such subscription agreement, each Limited Partner agreed to become a Limited Partner and made a commitment to Master Fund II (comprising a Loan Commitment and a Capital Contribution).

Each such subscription agreement contains a provision whereby the Limited Partner indemnifies Master Fund II, the General Partner and the other partners in respect of all liabilities, actions, proceedings, claims, costs, demands, damages and expenses (including reasonable legal fees) incurred or threatened by reason of any confirmation, declaration, representation or warranty given by such Limited Partner in its subscription agreement being untrue.

## 16.7 Contribution Agreement

Please refer to paragraph 6 of Part 1 of this document.

## 17 Material contracts relating to Master Fund III

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by Master Fund III and are, or may be, material to Master Fund III:

### 17.1 MFIII Partnership Agreement

#### *Commitments*

The Commitments comprise Loan Commitment and Capital Contribution in the ratio of 99.999 per cent. to 0.001 per cent. The Capital Contribution shall not be returned until the termination of Master Fund III. Each Limited Partner will advance loans to Master Fund III at times requested by the General Partner giving at least 10 Business Days' prior written notice, unless such notice is waived by the Limited Partner. Loans will be advanced by Limited Partners *pro rata* to their Loan Commitments (provided that, for the avoidance of doubt, further advances shall not be paid from a Limited Partner once its Undrawn Loan Commitment is zero).

#### *Investment Limitations*

**Diversification:** Master Fund III will not make investments that would cause it to have exposure to a single borrower or issuer of a debt security (or guarantor thereof) ("corporate issuer") exceeding 5 per cent. of Master Fund III's Aggregate Gross Assets at the time of investment. For the avoidance of doubt, special purpose vehicles such as issuers of CLOs will not be considered corporate issuers.

**Geographical Limitations:** Master Fund III will not make investments that cause it to have exposure of more than 10 per cent. of the Aggregate Gross Assets at the time of investment to corporate issuers headquartered and operating principally outside the European Union, the United Kingdom, the United States and Canada.

**Derivatives:** Master Fund III will not invest in publicly traded options, futures or financial derivatives except for efficient portfolio management in connection with an Investment, proposed Investment or Investments generally.

**Non-Corporate Loans:** Master Fund III will not invest in mortgage backed securities or asset backed securities or other asset-backed obligations backed by mortgages or other non-corporate loans; provided that Master Fund III may invest in portfolios which may include companies with substantial real estate holdings.

**Holdings of Master Fund II Interests:** The investment restrictions set out above will not be deemed breached by virtue of Master Fund II Interests held by Master Fund III. Master Fund II Interests may exceed 5 per cent. of Master Fund III's Aggregate Gross Assets at the date of the Contribution Agreement and may represent a majority of the limited partnership interests in Master Fund II.

Master Fund III will at all times invest and manage its assets with the objective of spreading investment risk and in accordance with its investment policy. It will not invest in listed closed-ended investment funds. It must not conduct any trading activity which is significant in the context of its group as a whole.

#### *Borrowings*

Master Fund III will not have any borrowings except for short term borrowings not to exceed 20 per cent. of Master Fund III NAV and borrowings of investment holding companies except borrowing that is non-recourse to Master Fund III and is used to acquire CLOs or other vehicles or structures. Master Fund III's investment policy does not limit such non-recourse borrowings.

#### *Commitment Period*

Commitments will be drawn down from time to time until 12 June 2023, subject to extension by the General Partner, at its discretion, by up to two additional consecutive one year periods. Thereafter, the Limited Partners will be released from any further obligation with



respect to their Undrawn Loan Commitments, except as necessary to (i) cover expenses of Master Fund III and MFIII Management Fees; (ii) complete Investments by Master Fund III in respect of transactions committed to by Master Fund II prior to the end of the Commitment Period; and (iii) subject to MFIII Advisory Committee consent make follow-on Investments (i.e., Investments made for the purpose of protecting or enhancing an existing Investment)

#### *Closings*

Following the admission of the Company to Master Fund III as a Limited Partner, the General Partner may accept Commitments by additional Limited Partners, and increases in Commitments by existing Limited Partners, until 12 June 2023 subject to extension by the General Partner, at its discretion, by up to two additional consecutive one year periods. Limited Partners admitted, and existing Limited Partners increasing their Commitments, subsequent to the MFIII Initial Closing Date will be allocated a share in the profits of Master Fund III at the time of drawdown of their Loan Commitments equal to the amount drawn as a percentage of the Adjusted MFIII NAV at the drawdown date. Adjusted MFIII NAV will include an adjustment for a share of Master Fund III's up- front expenses. The share in profits of Master Fund III of existing Limited Partners will be reduced proportionately so that the sum of all shares in profits of Master Fund III equals 100 per cent.

#### *Term*

Master Fund III's term will expire upon the later of: (i) five years following the end of the Commitment Period; and (ii) such date on which Master Fund III ceases to hold any investment in a CLO issuer which was made during the Commitment Period, or any reset, upside, reissue or re-financing thereof, and for which Master Fund III has acted as originator for risk retention purposes.

#### *Distributions*

Master Fund III will make periodic distributions of income to Limited Partners with the aim of distributing all net income each year. The General Partner will not be permitted to cause Master Fund III to make a distribution if Master Fund III does not have sufficient cash available to make the distribution or if the distribution would leave Master Fund III with insufficient funds or profits to meet its expenses (including the MFIII Management Fee) in the current accounting period or otherwise render Master Fund III insolvent.

All proceeds from the realisation of investments will be distributed to Partners or retained to cover the expenses of Master Fund III or retained for the purposes of reinvestment (in the latter to case restricted after the Commitment Period only to follow-on Investments (i.e., Investments made for the purpose of protecting or enhancing an existing Investment) not exceeding an amount equal to 15 per cent. of the aggregate Commitments or, where Master Fund III acts as originator to a CLO for European risk retention purposes, investments in corporate loans where a simultaneous forward purchase agreement is entered with that CLO issuer in respect of the sale of the same loans).

All income and proceeds from realisations of investments that are available for distribution (after payment of expenses and liabilities of Master Fund III) shall be allocated to Limited Partners in accordance with their respective shares in the profits of Master Fund III and applied in the following manner (and references to the Limited Partner below shall only apply to the MFIII Founder Partner if and to the extent it has made a Commitment):

- (a) first, 100 per cent. to the General Partner until it has been paid the MFIII Management Fee;
- (b) second, to repay the Limited Partner's Outstanding Loan;
- (c) third, to the Limited Partner until the Limited Partner has reached its preferred return threshold (being an amount equivalent to an IRR of 7 per cent. on the Outstanding Loan of such Limited Partner); and
- (d) fourth, (i) 100 per cent to the Limited Partner in respect of capital and income proceeds arising from its investment in Master Fund II that were not reinvested in Master Fund III; and (ii) 85 per cent to the Limited Partner and 15 per cent. to the MFIII Founder Partner.

At the end of the life of Master Fund III any assets remaining will be distributed. The General Partner anticipates the distribution being made in cash. The General Partner may, in its discretion, distribute all or any of Master Fund III assets in specie upon termination of Master Fund III. The Company will be entitled to require the General Partner (or, where applicable, the liquidating trustee of Master Fund III) to continue to hold title to such assets, at the Company's cost, solely for the benefit of the Company and use reasonable efforts to sell such assets on the Company's behalf on terms acceptable to the Company. For the avoidance of doubt the distribution shall be deemed to have been made at the time of the proposed in specie distribution.

#### *MFIII Management Fee*

The General Partner will be entitled to a fee monthly in arrear during the term of Master Fund II (the "MFIII Management Fee"), starting on the MFIII Initial Closing Date. The MFIII Management Fee will equal 1.5 per cent. per annum of Master Fund III NAV (as reduced by an amount equal to the value of any outstanding Master Fund II Interests held by Master Fund III) (and *pro rata* in respect of accounting periods of more or less than one year).

The General Partner may agree rebate arrangements with any Limited Partner. In particular, any Limited Partner that makes a Commitment of US\$150 million or more (including for the avoidance of doubt the Company) shall be entitled to a rebate of its share of the MFIII Management Fee such that it will pay a MFIII Management Fee of 1 per cent. per annum of its share of Master Fund III NAV.

#### *Ongoing Expenses*

Master Fund III is responsible for all expenses, direct or indirect, incurred in relation to the administration, business, and operation of Master Fund III, the General Partner and MFIII Founder Partner including, without limitation, costs of printing and circulating reports and notices, all introduction and similar fees, abort costs, legal fees, directors' fees, administrators', auditors' and valuers' fees, registration fees, accounting expenses (including any expenses associated with the preparation of the Master Fund III's financial statements and tax returns), fees and expenses of holding any meetings of Master Fund III or the MFIII Advisory Committee, any costs associated with compliance and advice in relation to compliance with risk retention requirements, the EU/UK AIFMD, ATAD, CRS, MDR, FATCA, any tax information arrangements and the EC Directive on Markets in Financial Instruments repealing Directive 2004/39/EC and the Regulation on Markets in Financial Instruments, EU Sustainable Finance Disclosure Regulation, fees and expenses relating to the marketing of interests and Master Fund III (including the costs of any depositaries, representatives, local agents, ombudsmen, private placement registrations) and reasonable and attributable out-of-pocket expenses of placement agents, brokers and intermediaries (but excluding commissions payable to placement agents, brokers and intermediaries which shall be borne by the General Partner or its associates), fees and expenses incurred in relation to any custodian or nominee of the assets of Master Fund III and the MFIII Advisory Committee, fees and expenses relating to the admission of investors, establishment and ongoing fees and expenses of any conduit entity, external consultants' fees, legal and industry research costs, advertising costs, bank charges, rating agencies, information services, independent price vendors, costs of meetings of Investors, insurance costs, borrowing costs, hedging costs, extraordinary expenses (such as litigation), costs of structuring, establishing, operating and liquidating any investment holding company, including costs of any type as relate to or are incurred by such an investment holding company, costs of any restructuring of Master Fund III or its investments, taxes, duties, fees and governmental charges incurred by Master Fund III and all stamp duties, costs associated with the liquidation of Master Fund III and fees of lawyers, accountants, auditors, valuers and any external consultants arising in respect of identifying, evaluating, negotiating, acquiring, holding, monitoring, protecting and realising investments, provided that Master Fund III shall not be responsible for disbursements in respect of (a) overheads of the General Partner properly payable by the General Partner from the Priority Profit Share (as referred to in the MFIII Partnership Agreement) including remuneration and expenses paid to its employees, rent and utilities expenditure; or (b) expenses recovered from companies or other entities in which Master Fund III has made (or proposes to make) an investments.

The expenses, direct or indirect, incurred in relation to the General Partner shall be fairly allocated between the entities for which it acts as general partner.

#### *Other Fees*

100 per cent. of all transaction, directors', consulting, investment banking, closing, topping, break-up and other similar fees ("Other Fees") received by the General Partner, the Investment Adviser or their associates as a result of an Investment by Master Fund III (but excluding any management fees received in relation to an Investment) will be applied to reduce the MFIII Management Fee for the following period. To the extent such offsets would reduce the MFIII Management Fee for a given period below zero, such offsets will be carried forward and reduce future instalments of the MFIII Management Fee.

#### *Transfer of Interests and Withdrawal*

Limited Partners may transfer their interests in Master Fund III with the prior written consent of the General Partner, whose consent may be withheld in its sole discretion (or where to an associate, whose consent may not be unreasonably withheld). A Limited Partner may be required to withdraw from Master Fund III if the General Partner determines that the continuance of such Limited Partner as a partner would cause Master Fund III to be in breach of any law or regulation or materially adversely affect Master Fund III.

#### *Disposal of Interests*

A Limited Partner may dispose of its interest in Master Fund III to avoid or cure a legal or regulatory breach

#### *Excused Investors*

A Limited Partner may be excused from funding an Investment if previously agreed in writing by the General Partner or to the extent that either in the opinion of counsel to the General Partner or if it provides the General Partner with a or if it provides the General Partner with a certificate by an executive officer of the excused investor (which, if the General Partner so requires, shall also be supported by an opinion of counsel reasonably satisfactory to the General Partner) to the effect that its participation would violate a law or regulation or breach any governmental licence, permit or similar approval applicable to it. The General Partner may issue new drawdown notices for further drawdowns to the other Limited Partners to the extent of their Undrawn Loan Commitments.

#### *Amendments to the MFIII Partnership Agreement*

The MFIII Partnership Agreement and the investment policy of Master Fund II may be amended by the General Partner by a Special Consent (i.e. the consent of Limited Partners holding 75 per cent. or more of the Total Commitments), except that no amendment may (i) impose upon any Limited Partner any obligation to make further payments to Master Fund III beyond the amount of its Capital Contribution and Loan Commitment or (ii) increase the liabilities or obligations of, or diminishes the rights or protections of, a particular Limited Partner or a particular group of Limited Partners differently than the other Limited Partners without the consent of all such Partners adversely affected thereby or (iii) cause the Company to be in breach of the Listing Rules.

Notwithstanding the foregoing, the General Partner may amend the MFIII Partnership Agreement without the consent of any Limited Partner at any time to, among other circumstances set forth in the MFIII Partnership Agreement, (i) reflect any amendments or additions to The Limited Partnership (Guernsey) Law, 1995 or ERISA or related regulations and (ii) to make changes that do not materially adversely affect the rights or obligations of any Limited Partners and the amendment is not objected to by Limited Partners holding 10 per cent. or more of the Total Commitments within 10 Business Days of notice being given of the proposed amendment.

#### *Feeder Funds*

The General Partner or any associate thereof may establish one or more Limited Partners as a feeder fund for certain investors on such terms as it may determine and agree with the limited partners or such other investors in such feeder funds.

### *Parallel Funds*

Additional limited partnerships or other vehicles may be formed at their own cost to invest alongside Master Fund III to accommodate the legal, tax, regulatory or other similar considerations of certain investors. Any investments by Parallel Funds in Investments will be made proportionately, based on the respective remaining capital commitments of Master Fund III and each Parallel Fund, on substantially the same terms as Master Fund III, subject to applicable legal, tax, regulatory or other similar considerations, and each Parallel Fund will generally share proportionately in Investment expenses.

### *Alternative Investment Vehicles*

For legal, tax, regulatory or other reasons, the General Partner may determine that it is in the best interests of the Limited Partners that an Investment be made through an alternative investment vehicle. The General Partner will have the authority to create such vehicles in such circumstances and cause some or all of the Limited Partners' indirect interests in such Investment to be held through such an alternative vehicle. For purposes of calculating the Carried Interest and MFIII Management Fees, any Investments held in an alternative vehicle will be treated as if held by Master Fund III.

### *MFIII Advisory Committee*

A MFIII Advisory Committee shall be established comprising representatives of the Limited Partners selected by the General Partner. The MFIII Advisory Committee will provide advice and counsel to the General Partner in connection with matters related to Master Fund III as requested by the General Partner and will be required to approve certain matters, including conflicts of interest. The Company has the right to appoint at least one member to the MFIII Advisory Committee throughout the life of Master Fund III and for the avoidance of doubt the MFIII Advisory Committee will comprise only the representative of the Company at the MFIII Initial Closing Date. For so long as the Company holds more than 50 per cent. of the Total Commitments, it will have the right to appoint a majority of members of the MFIII Advisory Committee.

The General Partner is required to consult with the MFIII Advisory Committee prior to investing in any Investment which is managed or advised by the General Partner, the Investment Adviser or an Affiliate.

### *Co-Investment*

The General Partner may, but is not obligated to, provide co-investment opportunities to Limited Partners prior to making such opportunities available to third parties.

### *Early Termination*

Master Fund III will terminate early upon (i) the bankruptcy, insolvency, dissolution or liquidation of the General Partner, (ii) the agreement as to such termination of the General Partner and the MFIII Founder Partner and of the Investors by Special Consent; (iii) notice served on the General Partner following a judgment by a court of law of a material breach of the MFIII Partnership Agreement (including a failure to comply in any material respect with the Investment Policy), fraud, wilful illegal acts, wilful default or gross negligence by the General Partner or the Investment Adviser which results in Master Fund III and/or any of the Limited Partners suffering material financial disadvantage, (iv) the service of notice by the General Partner that all Investments have been realised and the realisation proceeds have been distributed or (v) the withdrawal of the General Partner, in each case unless the Limited Partners vote by Majority Consent to replace the General Partner and continue the fund.

### *Key Man*

If until the end of the Commitment Period any two of Miguel Ramos Fuentenebro and Roger Coyle (including any additional named executives or replacements approved by the MFIII Advisory Committee) (the "Key Men") cease to be active members or officers of the General Partner, the Investment Adviser or their associates, the MFIII Advisory Committee will have the right to suspend the Commitment Period such that Master Fund III will no longer be able to make new investments (except for investments already committed to). If such suspension is not lifted by a decision of the MFIII Advisory Committee within 6 months, the Commitment Period will terminate (if it has not terminated already). The MFIII Advisory Committee may

approve replacement Key Men at any time (whether or not during a suspension of the Commitment Period). The General Partner shall notify the Limited Partner of both Miguel Ramos Fuentenebro and Roger Coyle cease to devote their time as per above.

#### *Financial Statements and Reports*

The General Partner will prepare financial statements on an annual basis in accordance with such internationally recognised accounting principles and practices as may be agreed with the auditors from time to time. Master Fund III's accounting reference date is 31 December.

The General Partner shall cause such financial statements to be audited by a firm of internationally recognised chartered accountants within 4 months of 31 December each year. Each Limited Partner will receive audited annual financial statements for Master Fund III.

Within 2 months of the end of each period of three months ending on the last day of 31 March, 30 June, 30 September and 31 December in each year, the General Partner shall prepare and send to each Limited Partner a report comprising, *inter alia*, a statement of the Investments, details of the Investments purchased, sold and otherwise disposed of during the relevant period and details of all borrowings entered into on behalf of Master Fund III and all guarantees, indemnities, covenants and undertakings given in favour of third parties on behalf of Master Fund III. The reports will include the General Partner's quarterly unaudited valuations of Investments. Each Limited Partner will also receive a quarterly individual statement showing its financial position in respect of its interest.

The Administrator's valuation of Master Fund III will be calculated as at the close of business on the last business day of every month by the Administrator and the General Partner, upon request will notify a Limited Partner by email within 10 Business Days of the end of the relevant month provided that such notification shall first be made to the Company and shall not be made to the other Limited Partners until the earlier of: (i) the Company having released its Net Asset Value per Share through the Regulatory Information Service; and (ii) 24 hours having passed since such notification to the Company (provided that such 24 hours shall only run during the 24 hours of a Business Day).

#### *Meetings*

The General Partner will organise an annual meeting of the Limited Partners and will present a report on the progress of Master Fund III at the meeting.

#### *Indemnification; Limitation on Liability*

To the fullest extent permitted by applicable law, Master Fund III will indemnify the General Partner, the MFIII Founder Partner and the Investment Adviser, their respective associates, director, officers, shareholders, partners, agents, consultants and employees and members of the MFIII Advisory Committee against all claims, liabilities, costs or expenses incurred by an indemnified person by reason of their holding such positions, except resulting from the indemnified person's bad faith, fraud, gross negligence or wilful misconduct, reckless disregard or wilful breach.

Partners may be required to re-advance *pro rata* to Master Fund III, as an addition to or to create an Outstanding Loan, any amount distributed to it pursuant to the MFIII Partnership Agreement to the extent such sums are required by Master Fund III to satisfy any indemnity referred to above provided that no Partner is obliged to re-advance such sums more than six months after the dissolution of Master Fund III.

#### *Confidentiality*

Limited Partners will not be permitted to disclose any confidential information (including any financial statements and reports) other than to its professional advisers or to its shareholders, associates, employees and directors (if they are under an equivalent duty of confidentiality) or as required by law or by any regulatory or tax authority. The Company may disclose to its shareholders fund level information restricted to the extent of its Commitment drawn down and distributions made and the MFIII Management Fee and expenses attributable to its interest in Master Fund III, in addition to information regarding the Investments which is



designated as disclosable by the General Partner. The latter will include, but not be limited to, the top ten underlying loan exposures and the geographic distribution and the industry sector distribution of underlying loan exposures in Master Fund III portfolio.

**17.2 MFIII Investment Advisory Agreement**

Please refer to paragraph 8 of Part 2 of this document.

**17.3 Amended and Restated GP Administration and Secretarial Agreement relating to Master Fund III**

Please refer to paragraph 16.3 of Part 7 of this document.

**17.4 MFIII Custodian Agreement**

MFIII Custodian is being appointed to act as custodian of Master Fund III pursuant to the terms and provisions of the MFIII Custodian Agreement and is responsible for the custody of the cash and securities and any other property of any kind from time to time of Master Fund III which is delivered to and accepted by MFIII Custodian. MFIII Custodian is entitled to an annual custody fee of 5,000 Euros plus 1 basis point on custodial assets and an annual bank account fee of 5,000 Euros, as well as an initial acceptance fee of 10,000 Euros. Other than a liability caused directly by the negligence, fraud or wilful default of MFIII Custodian or its affiliate, Master Fund III shall indemnify MFIII Custodian and its directors, officers, employees or shareholders and keep each of them indemnified against all liabilities to which they or a nominee company controlled by MFIII Custodian may be or become subject or which may be incurred by any of them in the discharge or purported discharge of any of MFIII Custodian's functions under the MFIII Custodian Agreement or in respect of any other matter or thing done or omitted in any way relating to the MFIII Custodian Agreement (including all liabilities incurred in disputing or defending any of the foregoing).

MFIII Custodian is authorised by Master Fund III to delegate from time to time any of its duties under the MFIII Custodian Agreement to delegates selected by MFIII Custodian on the following basis:

- (a) MFIII Custodian will exercise due skill, care and diligence in the selection, appointment and periodic review of its delegates (other than clearing systems), except for delegates which have not been selected by MFIII Custodian itself;
- (b) MFIII Custodian may delegate the safe custody of assets (other than cash) to a sub-custodian (who may be an affiliate of MFIII Custodian) to hold on such terms as such sub-custodian may require and subject to any applicable rules in the jurisdictions where the sub-custodian is located and/or holds securities;
- (c) MFIII Custodian shall only hold assets through sub-custodians that have entered into a written agreement with MFIII Custodian governing the terms and conditions of their respective appointment as a sub-custodian to MFIII Custodian (the "Sub-custodial Agreement");
- (d) sub-custodians may hold assets with other sub-custodians and in clearing systems in which they are participants or members. Assets held with a sub-custodian will be held subject to the terms and conditions of the relevant Sub-custodial Agreement and in accordance with, and subject to, the laws, regulations and local market practices imposed on such sub-custodian; and
- (e) the extent of MFIII Custodian's liability for the acts and omissions of Delegates is set out below.

None of MFIII Custodian, its directors, officers, employees or shareholders shall be liable or responsible to Master Fund III for any liability (including, but not limited to, any liability arising from negligence unless otherwise stated below) which may directly or indirectly result from:

- (a) anything done or omitted to be done by: (i) MFIII Custodian or any sub-custodian that is an affiliate of MFIII Custodian in connection with the MFIII Custodian Agreement, other than any liability to Master Fund III that is caused directly by the negligence, fraud or wilful default of MFIII Custodian or such affiliate; or (ii) any other delegate, in connection with the MFIII Custodian Agreement, other than any liability to Master Fund

III that is caused directly by the failure of MFIII Custodian to comply with its duties under the MFIII Custodian Agreement; (iii) any clearing system, investment exchange, broker or any other third party; or

- (b) the occurrence of: (i) an insolvency event in respect of any sub-custodian that is not an affiliate of MFIII Custodian, other delegate, clearing system or any other third party including, but not limited to, any broker, counterparty or issuer of securities; or (ii) any failure by MFIII Custodian to perform any of its obligations if such performance would result in MFIII Custodian being in breach of any rules which are applicable to it; or (iii) a force majeure event.

#### **17.5 MFIII Subscription Agreement**

The Company entered into the MFIII Subscription Agreement with the General Partner (as general partner of Master Fund II) on 26 March 2021. Pursuant to the MFIII Subscription Agreement, the Company agreed to become a Limited Partner and made a commitment to Master Fund III (comprising a Loan Commitment and a Capital Contribution) and agreed to procure the transfer of the certain assets to Master Fund III.

The MFIII Subscription Agreement contains a provision whereby the Company indemnifies Master Fund III, the General Partner and the other partners in respect of all liabilities, actions, proceedings, claims, costs, demands, damages and expenses (including reasonable legal fees) incurred or threatened by reason of any confirmation, declaration, representation or warranty given by the Company in the MFIII Subscription Agreement being untrue.

#### **17.6 Contribution Agreement**

Please refer to paragraph 6 of Part 1 of this document.

### **18 Consent**

- 18.1 Numis as (joint) bookrunner, financial adviser has given and not withdrawn its consent to the issue of this document with the inclusion of its name and references to it in the form and context in which they appear.
- 18.2 Liberum as (joint) bookrunner, financial adviser has given and not withdrawn its consent to the issue of this document with the inclusion of its name and references to it in the form and context in which they appear.
- 18.3 The Investment Adviser has given and not withdrawn its consent to the issue of this document with the inclusion of its name and references to it in the form and context in which they appear.

### **19 The Takeover Code**

The Takeover Code applies to the Company.

Given the existence of the buyback powers described in the paragraphs above, there are certain considerations that Shareholders should be aware of with regard to the Takeover Code.

Under Rule 9 of the Takeover Code, any person who acquires shares which, taken together with shares already held by that person or shares held or acquired by persons acting in concert with the that person, carry 30 per cent. or more of the voting rights of a company which is subject to the Takeover Code, is normally required to make a general offer to all the remaining shareholders to acquire their shares. Similarly, when any person or persons acting in concert already hold more than 30 per cent. but not more than 50 per cent. of the voting rights of such company, a general offer will normally be required if any further shares increasing that person's percentage of voting rights are acquired.

Under Rule 37 of the Takeover Code when a company purchases its own voting shares, a resulting increase in the percentage of voting rights carried by the shareholdings of any person or group of persons acting in concert will be treated as an acquisition for the purposes of Rule 9 of the Takeover Code. A shareholder who is neither a director nor acting in concert with a Director will not normally incur an obligation to make an offer under Rule 9 of the Takeover Code in these circumstances.

However, under note 2 to Rule 37 of the Takeover Code where a person has acquired shares at a time when that person had reason to believe that a purchase by the company of its own voting shares would take place, then an obligation to make a mandatory bid under Rule 9 of the Takeover Code may arise.

The buyback powers could have implications under Rule 9 of the Takeover Code for Shareholders with significant shareholdings. The buyback powers should enable the Company to anticipate the possibility of such a situation arising. Prior to the Board implementing any share buyback, the Board will seek to identify any Shareholders who they are aware may be deemed to be acting in concert under note 1 of Rule 37 of the Takeover Code and will seek an appropriate waiver in accordance with note 3 of Rule 37. However, neither the Company, any of the Directors nor the Investment Adviser will incur any liability to any Shareholder(s) if they fail to identify the possibility of a mandatory offer arising or, if having identified such a possibility, they fail to notify the relevant Shareholder(s) or if the relevant Shareholder(s) fail(s) to take appropriate action.

## **20 Auditors**

KPMG Channel Islands Limited have been appointed as auditor to the Company, Master Fund II and Master Fund III. KPMG Channel Islands Limited are chartered accountants and a member firm of the Institute of Chartered Accountants in England and Wales. KPMG Channel Islands Limited have audited the Company annual accounts for the period ended 31 December 2017, 2018 and 2019 and no other information contained in this document.

## **21 General**

- 21.1 Numis is independent from the Company, the Investment Adviser, the General Partner, Master Fund II and Master Fund III. Liberum is independent from the Company, the Investment Adviser, the General Partner, Master Fund II and Master Fund III.
- 21.2 None of the Company, Master Fund II nor Master Fund III currently has any significant investments in progress and, other than in respect of (i) the proposed investment in Master Fund III by the Company; (ii) Master Fund II (or, on close, an associated entity) acting as originator and risk retention holder in relation to the warehousing and anticipated future close of Fair Oaks Loan Funding IV DAC as disclosed in Part 2 of this document; and (iii) the proposed transfer of interests in Master Fund II which became attributable to 2021 Shares from the Company to Master Fund III, in each case pursuant to the Contribution Agreement, and other than as disclosed under Parts 1, 2 and 3 of this document, none of the Company, Master Fund II nor Master Fund III has made any commitments concerning future investments. The Company will be a passive investor in Master Fund II and Master Fund III.
- 21.3 Neither the Directors nor the General Partner of Master Fund II or Master Fund III is aware of any patents or other intellectual property rights, licences, particular contracts or manufacturing processes on which the Company or Master Fund II or Master Fund III is dependent.
- 21.4 None of the Company, Master Fund II nor Master Fund III has any borrowings or indebtedness (other than in respect of capital contributions and loan commitments made to Master Fund II by its limited partners and other than in respect of capital contributions and loan commitments to be made to Master Fund III by its limited partners) and has not created any charge or security interest over or attaching to its respective assets.
- 21.5 Master Fund II was established for the purpose of facilitating investment by the Company (and potential additional investors), through Master Fund II, in a portfolio of loans and CLOs. Master Fund II is designed to be suitable for feeder funds such as the Company, professionally advised private investors and institutional investors.
- 21.6 Master Fund III was established for the purpose of facilitating investment by the Company (and potential additional investors), through Master Fund III, in a portfolio of loans and CLOs. Master Fund III is designed to be suitable for feeder funds such as the Company, professionally advised private investors and institutional investors.
- 21.7 The business address of each of the directors of the General Partner is the registered office address of Master Fund II and Master Fund III.

- 21.8 Where information has been sourced from third parties, the Company, Master Fund II, Master Fund III and the General Partner each confirms that such information has been accurately reproduced and that, so far as the Company, Master Fund II, Master Fund III and the General Partner are aware and are able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Unless otherwise stated, such information has not been audited.

## **22 Documents available for inspection**

Copies of the following documents will be available for inspection during usual business hours on any day (Saturdays, Sundays and public holidays excepted) at the registered office of the Company at Sarnia House, Le Truchot St Peter Port, Guernsey GY1 1GR for so long as this document remains valid, and will be available on the Company's website <https://www.fairoaksincome.com>:

- 22.1 the Memorandum and Articles, the MFII Partnership Agreement and the MFIII Partnership Agreement;
- 22.2 the written consents, referred to in paragraph 18 of this Part 7;
- 22.3 the Annual Reports and Interim Reports as referred to in Part A of Part 5;
- 22.4 the MFII Annual Reports as referred to in Part B of Part 5; and
- 22.5 this document.

Dated 26 March 2021

## PART 8

### DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

<b>“2017 Shares”</b>	the ordinary shares of no par value in the capital of the Company already in issue prior to the date of this document which are designated as “2017 shares”;
<b>“2021 Shares”</b>	the ordinary shares of no par value each in the capital of the Company designated as “2021 shares”;
<b>“Adjusted MFII NAV”</b>	the Master Fund II NAV plus an amount equal to 75 per cent. of the establishment expenses of Master Fund II;
<b>“Adjusted MFIII NAV”</b>	the Master Fund III NAV plus an amount equal to the establishment expenses of Master Fund III;
<b>“Administrator” or “Praxis”</b>	Praxis Fund Services Limited, whose details are set out in Part 1 of this document;
<b>“Admission”</b>	the admission of the 2021 Shares and/or C Shares to trading on the SFS pursuant to a Placing under the Placing Programme;
<b>“Affiliate”</b>	in relation to a body corporate, any subsidiary, subsidiary undertaking or holding company of such body corporate, and any subsidiary or subsidiary undertaking of any such holding company for the time being;
<b>“Aggregate Gross Assets”</b>	the value of the principal balances of the loans and other assets held directly or indirectly by the Company, Master Fund II or Master Fund III (as the context requires);
<b>“AIC Code”</b>	the Association of Investment Companies’ Code of Corporate Governance, as amended from time to time;
<b>“Amended and Restated Administration and Secretarial Agreement”</b>	the amended and restated administration and secretarial agreement dated 26 March 2021 between the Company and the Administrator;
<b>“Amended and Restated GP Administration and Secretarial Agreement”</b>	the amended and restated administration and secretarial agreement dated 26 March 2021 between the General Partner (acting in its own capacity and in its capacity as general partner of a number of partnerships, including without limitation Master Fund II, Master Fund III, MFII Founder Partner and MFIII Founder Partner) and the Administrator;
<b>“Articles”</b>	the articles of incorporation of the Company as amended from time to time;
<b>“ATAD”</b>	collectively, the Anti-Tax Avoidance Directives being, Council Directive (EU) 2016/1164 of 12 July 2016 (“ATAD I”) and Directive 2017/952/EU of 29 May 2017 amending ATAD I as regards hybrid mismatches with third countries (“ATAD II”) and shall include any law, rule or regulation of any jurisdiction other than the United Kingdom pursuant to, or implementing, ATAD;
<b>“Board”</b>	the Directors;
<b>“Business Day”</b>	any day (other than a Saturday or a Sunday) on which clearing banks are open for a full range of banking transactions in London and Guernsey;
<b>“C Shares”</b>	C shares of no par value each in the capital of the Company;
<b>“C Shareholder”</b>	a holder of a C share;



<b>“Capital Contribution”</b>	in respect of Master Fund II: the amount of capital agreed to be contributed to Master Fund II being equal in the case of an investor to 99.999 per cent. of its Commitment in Master Fund II, and in respect of Master Fund III: the amount of capital agreed to be contributed to Master Fund III being equal in the case of an investor to 99.999 per cent. of its Commitment in Master Fund III;
<b>“Carried Interest”</b>	in respect of Master Fund II: the MFII Founder Partner’s entitlement to gains and profits of Master Fund II, as set out in the MFII Partnership Agreement and described in paragraph 16.1 of Part 7 of this document, and in respect of Master Fund III: the MFIII Founder Partner’s entitlement to gains and profits of Master Fund III, as set out in the MFIII Partnership Agreement and described in paragraph 17.1 of Part 7 of this document;
<b>“certificated” or “in certificated form”</b>	the description of a share or other security which is not in uncertificated form (that is not in CREST);
<b>“CLO”</b>	collateralised loan obligation;
<b>“Commission”</b>	the Guernsey Financial Services Commission;
<b>“Commitment”</b>	means, in relation to a Limited Partner, the amount committed by it to Master Fund II or Master Fund III (as the context may require) and accepted by the General Partner in accordance with the provisions of the MFII Partnership Agreement or MFIII Partnership Agreement (as the context may require), whether or not such amount has been advanced in whole or in part and whether or not it has been repaid to the Limited Partner in whole or in part;
<b>“Commitment Period”</b>	in respect of Master Fund II: 12 June 2019 as extended by two consecutive one year periods to 12 June 2021, and in respect of Master Fund III: 12 June 2023 as may be extended by up to two consecutive one year periods by the General Partner;
<b>“Companies Act 2006”</b>	the provisions of the UK Companies Act 2006 in force at the date of this document;
<b>“Companies Law”</b>	The Companies (Guernsey) Law, 2008, as amended;
<b>“Company”</b>	Fair Oaks Income Limited, a non-cellular company limited by shares incorporated in Guernsey with registered number 58123, whose registered office is at Sarnia House, Le Truchot St Peter Port, Guernsey GY1 1GR;
<b>“Continuation Resolution”</b>	Any ordinary resolution to be proposed by the Board to Shareholders that the Company continues as a Registered Closed-ended Collective Investment Scheme;
<b>“Contribution Agreement”</b>	the contribution agreement dated 26 March 2021 entered into between the Company, Master Fund II (acting by the General Partner), Master Fund III (acting by the General Partner) and the General Partner as described in paragraph 6 of Part 1;
<b>“Conversion”</b>	the conversion of C Shares into New 2021 Shares, as described in paragraph 8.2.22(h) of Part 7;
<b>“Conversion Date”</b>	the date on which Conversion occurs;
<b>“Court”</b>	the Royal Court of Guernsey;
<b>“CREST”</b>	the CREST system (as defined in the CREST Regulations) for the paperless settlement of share transfers and the holding of shares in uncertificated form which is administered by Euroclear;

<b>“CREST Manual”</b>	the compendium of documents entitled “CREST Manual” issued by Euroclear from time to time and comprising the CREST Reference Manual, the CREST Central Counterparty Service Manual, the CREST International Manual, the CREST Rules, the CCSS Operations Manual and the CREST Glossary of Terms;
<b>“CREST Member”</b>	a person who has been admitted by Euroclear as a member (as defined in the CREST Regulations);
<b>“CREST Regulations”</b>	the Uncertificated Securities (Guernsey) Regulations 2009 (as amended from time to time);
<b>“CRS”</b>	the OECD’s “Common Reporting Standard”;
<b>“CTA 2009”</b>	the UK’s Corporation Tax Act 2009;
<b>“Custodian”</b>	the custodian of the Company and Master Fund II, being BNP Paribas Securities Services S.C.A., Guernsey Branch;
<b>“Custodian Agreement”</b>	the custodian agreement dated 15 December 2015 between the Company and the Custodian;
<b>“Directors”</b>	the directors of the Company as at the date of this document whose names are set out on page 38 of this document and <b>“Director”</b> means any one of them;
<b>“Disclosure Guidance and Transparency Rules” or “DTR”</b>	the disclosure Guidance and transparency rules made by the FCA in exercise of its functions as competent authority pursuant to Part 6 of FSMA;
<b>“EEA”</b>	the European Economic Area;
<b>“Effective Date”</b>	the date on which the admission of the 2021 Shares as re-designated from 2017 Shares pursuant to the Reorganisation Proposal to trading on the SFS occurs;
<b>“EGM”</b>	the extraordinary general meeting of the Company held on 16 April 2021 at 1.30 p.m.;
<b>“ERISA”</b>	the US Employment Retirement Income Security Act;
<b>“ERISA Plan Investors”</b>	a plan investor as defined by ERISA;
<b>“EU” or “European Union”</b>	the European Union first established by the treaty made at Maastricht on 7 February 1992, as constituted from time to time;
<b>“EU AIFMD”</b>	the EU’s Alternative Investment Fund Managers directive (No. 2071/61/EU) and all legislation made pursuant thereto, including, where applicable, the applicable implementing legislation and regulations in each member state of the European Union;
<b>“EU Prospectus Regulation”</b>	Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC;
<b>“EU Sustainable Finance Disclosure Regulation”</b>	EU Regulation 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector;
<b>“Euroclear”</b>	Euroclear UK & Ireland Limited;
<b>“European Economic Area” or “EEA”</b>	the European Union, Iceland, Norway and Liechtenstein;
<b>“EUWA”</b>	the European Union (Withdrawal) Act 2018, as amended;

<b>“Excluded Shareholder”</b>	those holders of 2017 Shares who are resident in or ordinarily resident in or citizens of jurisdictions outside the United Kingdom to whom the opportunity to (i) have their 2017 Shares re-designated as 2021 Shares under the Reorganisation Proposal or (ii) make an Election under the Reorganisation Proposal cannot be made for legal or regulatory reasons;
<b>“Fair Oaks Capital” or “Fair Oaks”</b>	the Investment Adviser and Fair Oaks Capital US LP (a Delaware limited partnership established in February 2016 and domiciled in the US) and their affiliates;
<b>“FATCA”</b>	the US Foreign Account Tax Compliance Act;
<b>“FCA”</b>	the Financial Conduct Authority of the United Kingdom;
<b>“FCA Rules”</b>	the rules or regulations issued or promulgated by the FCA from time to time and for the time being in force (as varied by any waiver or modification granted, or guidance given, by the FCA);
<b>“FSMA”</b>	the Financial Services and Markets Act 2000, (as amended from time to time), including any regulations made pursuant thereto;
<b>“General Partner”</b>	Fair Oaks Income Fund (GP) Limited, acting as general partner of Master Fund II and/or Master Fund III (as the context may require);
<b>“GP Directors”</b>	the directors of the General Partner;
<b>“GFSC Code”</b>	the Finance Sector Code of Corporate Governance published by the Commission;
<b>“Guernsey”</b>	the Island of Guernsey;
<b>“HMRC”</b>	HM Revenue & Customs;
<b>“IFRS”</b>	International Financial Reporting Standards
<b>“Investment”</b>	an investment by Master Fund II or Master Fund III (as the context may require);
<b>“Investment Adviser”</b>	Fair Oaks Capital Limited, a company incorporated in England and Wales with registered number 08260598 whose registered office is at 1 Albemarle Street, London W1S 4HA;
<b>“Investment Advisory Agreement”</b>	the amended and restated investment advisory agreement dated 26 March 2021 between the Company and the Investment Adviser;
<b>“Investor”</b>	any Limited Partner (other than MFII Founder Partner or MFIII Founder Partner), with respect to Master Fund III initially being the Company;
<b>“IRR”</b>	in relation to a Limited Partner, the internal rate of return calculated using the “XIRR” function in Microsoft Excel or any equivalent function in another software package that would result in a net present value of zero assuming the initial drawdown of the relevant amount of a Limited Partner’s Loan Commitment as the initial cashflow as at the date of drawdown and all subsequent drawdowns of Loan Commitments and distributions of income and principal as subsequent cashflows;
<b>“ISA”</b>	an individual savings account maintained in accordance with the UK Individual Savings Account Regulations 1998 (as amended from time to time);
<b>“ITTOIA 2005”</b>	the UK’s Income Tax (Trading and Other Income) Act 2005;
<b>“Latest Practicable Date”</b>	close of business on 24 March 2021, being the latest practicable date prior to the date of this document for ascertaining certain information contained herein;

<b>“Liberum”</b>	Liberum Capital Limited, a company incorporated in England and Wales with registration number 05912554, whose registered office is Ropemaker Place, Level 12, 25 Ropemaker Street, London EC2Y 9LY;
<b>“Limited Partner”</b>	any person who is admitted to Master Fund II and/or Master Fund III as a limited partner, as the context may require;
<b>“Listing Rules”</b>	the listing rules issued by the FCA under section 73A of FSMA
<b>“Loan Commitment”</b>	in respect of Master Fund II, the loan agreed to be advanced by a Partner to Master Fund II being equal, in the case of an Investor, to 99.999 per cent. of its Commitment, and in respect of Master Fund III, the loan agreed to be advanced by a Partner to Master Fund III being equal, in the case of an Investor, to 99.999 per cent. of its Commitment;
<b>“London Stock Exchange”</b>	the London Stock Exchange plc;
<b>“Majority Consent”</b>	the consent of Limited Partners holding 50 per cent. or more of Total Commitments;
<b>“Master Funds”</b>	Master Fund II and Master Fund III (and each a <b>“Master Fund”</b> );
<b>“Master Fund II”</b>	FOIF II LP (formerly FOMC II LP), a Guernsey limited partnership established and registered in Guernsey as a limited partnership on 24 February 2017 (registration number 2782);
<b>“Master Fund III”</b>	FOMC III LP, a Guernsey limited partnership established and registered in Guernsey as a limited partnership on 10 March 2021 (registration number 3847);
<b>“Master Fund II Interests”</b>	those limited partnership interests in Master Fund II to be transferred to Master Fund III pursuant to the Contribution Agreement;
<b>“Master Fund II NAV”</b>	the value of the assets of Master Fund II, less its liabilities, calculated in accordance with the valuation guidelines laid down by the General Partner, details of which are set out in Part 2 of this document;
<b>“Master Fund III NAV”</b>	the value of the assets of Master Fund III, less its liabilities, calculated in accordance with the valuation guidelines laid down by the General Partner, details of which are set out in Part 3 of this document;
<b>“MDR”</b>	(a) the EU Directive 2018/822/EU of 25 May 2018 amending Directive 2011/16/EU, as amended from time to time, as regards mandatory exchange of information in the field of taxation in relation to reportable cross-border arrangements (“DAC 6”); (b) the International Tax Enforcement (Disclosable Arrangements) Regulations 2020 SI 2020/25, as amended from time to time, being the United Kingdom legislation implementing DAC 6; and any law, rule or regulation of any jurisdiction other than the United Kingdom pursuant to, or implementing;
<b>“Memorandum”</b>	the memorandum of incorporation of the Company dated 7 March 2014 as amended from time to time;
<b>“MFII Advisory Committee”</b>	the committee formed under the MFII Partnership Agreement, as described in paragraph 16.1 of Part 7 of this document;
<b>“MFIII Advisory Committee”</b>	the committee formed under the MFIII Partnership Agreement, as described in paragraph 17.1 of Part 7 of this document;
<b>“MFIII Custodian”</b>	the custodian of Master Fund III, being Elavon Financial Services Designated Activity Company;

<b>“MFII Custodian Agreement”</b>	the custodian agreement dated 9 March 2017 entered into between Master Fund II and the Custodian;
<b>“MFIII Custodian Agreement”</b>	the custodian agreement to be dated on or around 26 March 2021 (to be) entered into between Master Fund III and MFIII Custodian;
<b>“MFII Founder Partner”</b>	Fair Oaks Founder II LP, a limited partnership established and registered in Guernsey as a limited partnership on 24 February 2017 (registration number 2781);
<b>“MFIII Founder Partner”</b>	Fair Oaks Founder VI LP, a limited partnership established and registered in Guernsey as a limited partnership on 19 March 2021 (registration number 3861);
<b>“MFII Initial Closing Date”</b>	the date on which the Company’s Commitment to Master Fund II became unconditional;
<b>“MFIII Initial Closing Date”</b>	the date on which the Company’s Commitment to Master Fund III becomes unconditional;
<b>“MFII Investment Advisory Agreement”</b>	the investment advisory agreement dated 9 March 2017 between the General Partner (as general partner for Master Fund II) and the Investment Adviser;
<b>“MFIII Investment Advisory Agreement”</b>	the investment advisory agreement dated 26 March 2021 between the General Partner (as general partner for Master Fund III) and the Investment Adviser;
<b>“MFII Management Fee”</b>	the fee paid by Master Fund II to the General Partner, referred to as the “Priority Profit Share” under the MFII Partnership Agreement, as described in paragraph 16.1 of Part 7;
<b>“MFIII Management Fee”</b>	the fee paid by Master Fund III to the General Partner, referred to as the “Priority Profit Share” under the MFIII Partnership Agreement, as described in paragraph 17.1 of Part 7;
<b>“MFII Partnership Agreement”</b>	the amended and restated partnership agreement dated 16 April 2020 relating to Master Fund II and made between the MFII Founder Partner and the General Partner and to which the Company has become a party through entering into the MFII Subscription Agreement, details of which are set out in paragraph 16.1 of Part 7;
<b>“MFIII Partnership Agreement”</b>	the amended and restated partnership agreement dated 26 March 2021 relating to Master Fund III and made between the MFIII Founder Partner and the General Partner and to which the Company has become a party through entering into the MFIII Subscription Agreement, details of which are set out in paragraph 17.1 of Part 7;
<b>“MFII Subscription Agreement”</b>	the subscription agreement entered into between the Company and the General Partner under which the Company became a Limited Partner of Master Fund II, details of which are set out in paragraph 16.5 of Part 7;
<b>“MFIII Subscription Agreement”</b>	the subscription agreement entered into between the Company and the General Partner under which the Company became a Limited Partner of Master Fund III, details of which are set out in paragraph 17.5 of Part 7;
<b>“MiFID II Product Governance Requirements”</b>	the UK MiFID II and (b) the UK’s implementation of Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing UK MiFID II, and in particular Chapter 3 of the Product Intervention and Product Governance Sourcebook of the FCA;



<b>“Money Laundering Regulations”</b>	the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, SI 2017/692 as amended from time to time, the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law, 1999, as amended and the Handbook on Countering Financial Crime and Terrorist Financing issued by the Commission dated 15 February 2021 as amended from time to time;
<b>“Net Asset Value” or “NAV”</b>	the value of the assets of the Company, less its liabilities, calculated in accordance with the valuation guidelines laid down by the Board, further details of which are set out in Part 1 of this document;
<b>“Net Proceeds”</b>	the proceeds received by the Company pursuant to the Placing Programme net of expenses incurred by the Company in respect of the Placing Programme;
<b>“New 2021 Shares”</b>	means the new 2021 Shares arising upon the Conversion of any tranche of C Shares in accordance with the Articles;
<b>“Numis”</b>	Numis Securities Limited, a company incorporated in England and Wales with registration number 02285918, whose registered office is at The London Stock Exchange Building, 10 Paternoster Square, London EC4M 7LT;
<b>“OECD”</b>	the Organisation for Economic Co-operation and Development;
<b>“Official List”</b>	the Official List of the FCA;
<b>“Outstanding Loan”</b>	the amount of an Investor’s Loan Commitment which has been drawn down and not repaid;
<b>“Parallel Fund”</b>	any additional limited partnership or entity established under agreements containing substantially similar commercial terms to the MFII Partnership Agreement and/or the MFIII Partnership Agreement;
<b>“Partners”</b>	the General Partner and all Limited Partners of Master Fund II for the time being or Master Fund III for the time being (as the context may require);
<b>“Partnership Law”</b>	The Limited Partnerships (Guernsey) Law, 1995, as amended
<b>“Placed Shares”</b>	the Shares which are the subject of any Placing
<b>“Placee”</b>	any person subscribing for Shares pursuant to a Placing under the Placing Programme;
<b>“Placing”</b>	the conditional placing by Numis and Liberum of Shares at the Placing Price pursuant to the Placing Programme as set out in Part 4;
<b>“Placing Agreement”</b>	the placing agreement dated 26 March 2021 between the Company, the Investment Adviser, Numis and Liberum, details of which are set out in paragraph 15.1 of Part 7 of this document;
<b>“Placing Price”</b>	the issue price per Share agreed by the Company, Numis and Liberum in respect of each Placing made under the Placing Programme;
<b>“Placing Programme”</b>	the programme pursuant to which Shares will be issued as described in Part 4 of this document;
<b>“POI Law”</b>	the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended;
<b>“Portfolio”</b>	the portfolio of investments held by the Company and/or Master Fund II and/or Master Fund III, as the context may require;

<b>“Preferred Return”</b>	in respect of Master Fund II: the threshold which will have been reached when a Limited Partner of Master Fund II has received an IRR of 7 per cent. on its Outstanding Loan, and in respect of Master Fund III: the threshold which will have been reached when a Limited Partner of Master Fund III has received an IRR of 7 per cent. on its Outstanding Loan;
<b>“Prospectus Regulation Rules”</b>	the rules and regulations made by the FCA under Part VI of FSMA;
<b>“Qualifying Short Term Investments”</b>	cash or cash equivalents, government or public securities (as defined in the FCA Rules) money market instruments, bonds, commercial paper or other debt obligations with banks or other counterparties having a “single A” (or equivalent) or higher credit rating as determined by any internationally recognised rating agency selected by the Board (which may or may not be registered in the EU);
<b>“RCIS Rules”</b>	the Registered Collective Investment Scheme Rules 2018;
<b>“Realisation Shares”</b>	the ordinary shares of no par value each in the capital of the Company designated as “Realisation Shares”;
<b>“Registrar”</b>	Link Market Services (Guernsey) Limited;
<b>“Regulation S”</b>	Regulation S promulgated under the Securities Act;
<b>“Regulatory Information Service” or “RIS”</b>	one of the regulatory information services authorised by the FCA to receive, process and disseminate regulatory information from listed companies;
<b>“Relevant State”</b>	each member state of the EEA
<b>“Reorganisation Proposal”</b>	(i) the resolution to be proposed at the EGM which proposes to amend the existing articles of incorporation of the Company to cater for, <i>inter alia</i> , the reorganisation of the share capital of the Company so that the 2017 Share class may be split into (i) the 2021 Share class and (ii) the Realisation Share class and to amend the date on which the Continuation Resolution is to be proposed, and (ii) the proposal as set out in the circular of the Company convening the EGM dated the same date as this document under which existing Shareholders are asked to choose as to how they wish for their 2017 Shares to be re-designated, as described in Part 1 of this document;
<b>“Restricted Jurisdiction”</b>	each of Australia, Canada, Japan, the Republic of South Africa, the United States and each of the member states of the EEA;
<b>“SEC”</b>	the US Securities and Exchange Commission;
<b>“Secondary Market Placing”</b>	the secondary market placing by Numis or Liberum to generate secondary market demand from Shareholders or new investors willing to hold 2021 Shares (to the extent that Shareholders who wish to consider realising their investment in the Company rather than hold either Realisation Shares or 2021 Shares pursuant to the Reorganisation Proposal);
<b>“Securities Act”</b>	the US Securities Act of 1933, as amended;
<b>“SFS”</b>	the Specialist Fund Segment of the Main Market of the London Stock Exchange;
<b>“Share” or “Shares”</b>	being 2017 Shares and/or Realisation Shares and/or 2021 Shares and/or C Shares, as the context may require;
<b>“Shareholder”</b>	a holder of a Share;
<b>“Special Consent”</b>	the consent of Limited Partners holding 75 per cent. or more of Total Commitments;

<b>“Takeover Code”</b>	the City Code on Takeovers and Mergers (as amended from time to time);
<b>“Tax Code”</b>	the US Internal Revenue Code of 1986, as amended;
<b>“TIDM”</b>	the Tradable Instrument Display Mnemonic used on the London Stock Exchange;
<b>“Total Commitments”</b>	the aggregate of all Commitments to Master Fund II or Master Fund III (as the context may require) from time to time;
<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland;
<b>“UK AIFMD”</b>	the requirements of the FCA Rules implementing the AIFMD in the UK and related UK laws (including Commission Delegated Regulation (EU) No 231/2013, as it forms part of UK law by virtue of the EUWA);
<b>“UK MAR”</b>	the UK version of regulation (EU) No.596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse as it forms part of the domestic law of the United Kingdom by virtue of the EUWA;
<b>“UK MiFID II”</b>	the UK’s implementation of EU Directive 2014/65/EU on markets in financial instruments, as amended;
<b>“UK Governance Code”</b>	the United Kingdom Corporate Governance Code published by the Financial Reporting Council in September 2012;
<b>“UK Offshore Fund Rules”</b>	UK tax legislation, including related regulations, relating to the taxation of participants in “offshore funds” as defined in Part 8 of the Taxation (International and Other Provisions) Act 2010;
<b>“UK PRIIPs Regulation”</b>	Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products, together with its implementing and delegated acts, as they form part of the domestic law of the United Kingdom by virtue of the EUWA
<b>“UK Prospectus Regulation”</b>	Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, as it forms part of the domestic law of the United Kingdom by virtue of the EUWA
<b>“uncertificated” or “in uncertificated form”</b>	recorded on a register of securities maintained by Euroclear in accordance with the CREST Regulations as being in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST;
<b>“US” or “United States”</b>	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia;
<b>“US, UK and European CLOs”</b>	CLOs pooled from loan obligations originating from North America and/or UK and/or Europe irrespective of the place of incorporation of the CLO securitisation vehicle;
<b>“US\$”</b>	US dollars, the legal currency of the US;
<b>“US Code”</b>	the US Internal Revenue Code of 1986, as amended;
<b>“US Exchange Act”</b>	the United States Securities Exchange Act of 1934, as amended;
<b>“US Investment Advisers Act”</b>	the Investment Advisers Act of 1940, as amended;
<b>“US Investment Company Act”</b>	the US Investment Company Act of 1940, as amended;

**“US person”**

has the meaning ascribed to it under Regulation S;

**“£”**

pounds sterling, the legal currency of the United Kingdom.

## **APPENDIX 1**

### **ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS RELATING TO MASTER FUND II FOR THE PERIOD ENDED 31 DECEMBER 2017**



## **FOMC II LP**

### **ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS**

**For the first period from 24 February 2017 (date of establishment) to 31  
December 2017**

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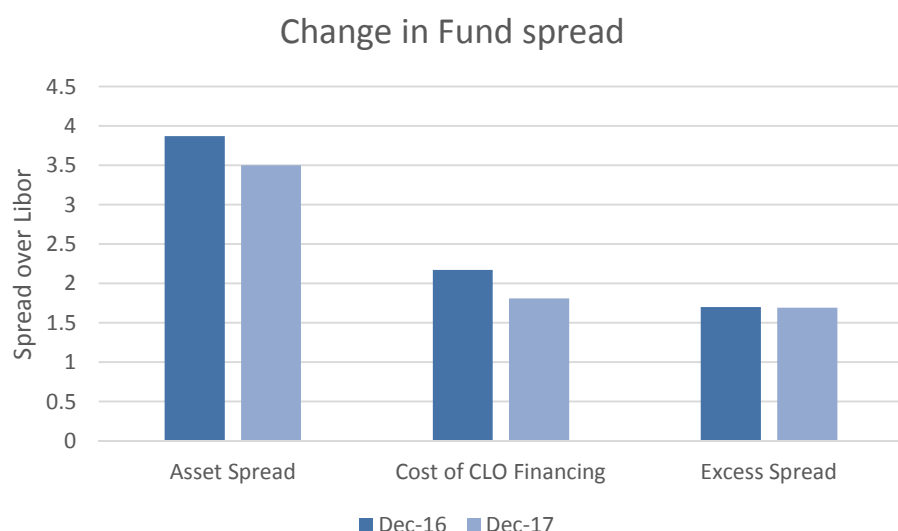
## FOMC II LP INVESTMENT ADVISER'S REPORT

Default losses in FOMC II LP (the "Partnership"<sup>1</sup>) continued to be below original base case assumptions and lower than the overall default rate for the bank loan market. The annualised default rate in the Fund's CLO equity portfolio from inception of the FOIF LP (the "Master Fund") to the end of 2017 was 0.14%<sup>2</sup>, significantly below the US loan market rolling twelve-month issuer-weighted default rate of 1.72% as at 29 December 2017.

Fair Oaks Capital Limited (the "Investment Adviser") continually monitors the underlying CLO portfolios, holding regular calls with the managers in order to identify and act early on potential sources of risk in the portfolios. Exposure to Oil & Gas and Retail borrowers was 1.3% and 4.0% respectively, both below the index weighting<sup>3</sup>.

During the course of 2017, the US bank loan market saw tightening loan spreads, down from 348bps in January to 336bps at the end of December<sup>4</sup> and high loan prepayment rates. In 2017, the total amount of loan repayments was \$346.9bn compared to \$260.9bn in 2016<sup>5</sup>. As a consequence of higher yielding loans being prepaid early and being substituted by loans with lower spreads, the Partnership's average CLO loan portfolio spread fell by 37bps from Libor+3.87% in December 2016 to Libor+3.50% in December 2017.

The Partnership, as a control equity investor, has offset the tightening of CLO loan portfolio spreads by pro-actively managing the liabilities of its CLO investments. The weighted average cost of CLO financing for the Partnership's control positions was reduced from Libor+2.17% in December 2016 to Libor+1.81% in December 2017, almost completely offsetting the tightening spreads in the CLO loan portfolios.



The weighted average cost of CLO financing can be modified by either "resetting" or "refinancing" the CLO liabilities. A reset requires repaying all CLO notes at par. Although CLO managers and arrangers generally prefer resets (as they generate longer AUM and fees), the General Partner reviews each investment to ensure that the decision maximises the ultimate expected return on the investment and refinancing has been the preferred option. Since inception of the Fund to December 2017, 75% of the CLO equity positions in the Master Fund have been refinanced.

Refinancing a CLO does not change any of the key terms of the transaction other than the CLO's cost of debt while a reset typically includes an extension of the reinvestment period and maturity, which will result in higher CLO debt, spreads than a refinancing (due to the longer maturity) and higher arranger fees. A further benefit of a refinancing is that it can be more selective and does not need to include all debt tranches (excluding, for example, lower rated notes originally issued at a discount to par).

<sup>1</sup> References to the "Partnership" refer to FOMC II LP.

<sup>2</sup> 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

<sup>3</sup> S&P LSTA Leveraged Loan Factsheet, where Oil & Gas was 3.4% and Retail (including Food & Drugs) was 6.2% as at 29-Dec-17

<sup>4</sup> Thomson Reuters

<sup>5</sup> US prepayment rates from S&P/LSTA Loan Index

<sup>6</sup> Asset spread based on loan par value weighted by Partnership's proportional ownership of Income Notes. Source: Intex; Cost of CLO Financing based on CLO liability spreads weighted by Partnership's proportional ownership of Income Notes. Source: Intex

## FOMC II LP

### INVESTMENT ADVISER'S REPORT, continued

The Investment Adviser believes that even in an unchanged market, the option to control the refinancing of CLO investments will have incremental value to the Fund as it will allow the CLO to benefit from the term structure of CLO financing spreads, ie. spreads decrease as the maturity of the CLO debt shortens. In early 2018, the Fund has reset an additional CLO equity investment and is in the final stages of completing the second refinancing of Neuberger XIX which was originally refinanced in June 2017.

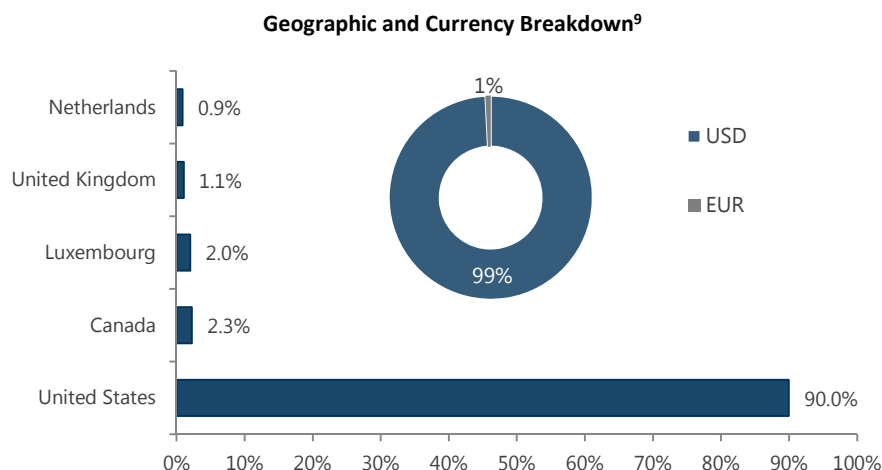
The Partnership also benefited in 2017 from the repayment at par of a number of mezzanine investments purchased in 2016. In 2017, the Master Fund received \$54.6 million prepayments from its mezzanine positions, generating a gross IRR of 30% on these investments.

### Portfolio Update

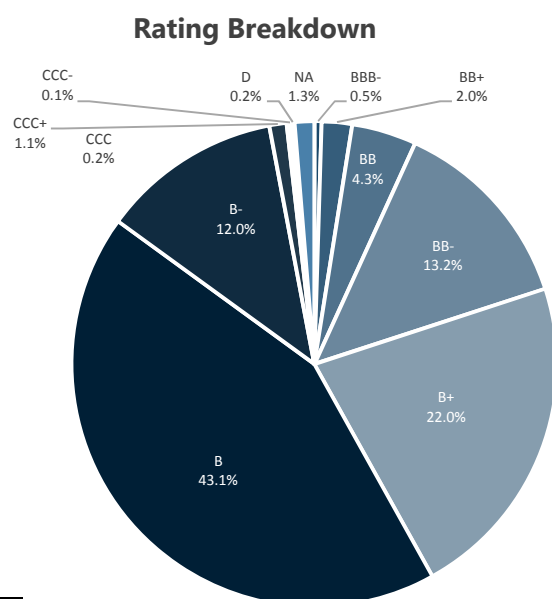
As at 31 December 2017, the Partnership had exposure to over 1,180 issuers<sup>7</sup> and the portfolio (including mezzanine investments) held 45 positions, across 38 CLOs managed by 21 CLO managers. Control CLO equity positions<sup>8</sup> represented 67.8% of the portfolio and non-control equity positions represented 1.0% of the portfolio. CLO mezzanine debt investments represented an additional 31.2%, composed of 5.9% mezzanine investments in CLOs in which the Master Fund owned a control equity position, and 25.3% where it did not.

The following table and charts summarises the Partnership's geographic breakdown, sector and rating diversification and top bank loan exposures, on a look-through basis.

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9



<sup>7</sup> Unique issuers whose loans are held in CLOs in which the Master Fund or the Partnership holds equity

<sup>8</sup> Including subordinated fee notes

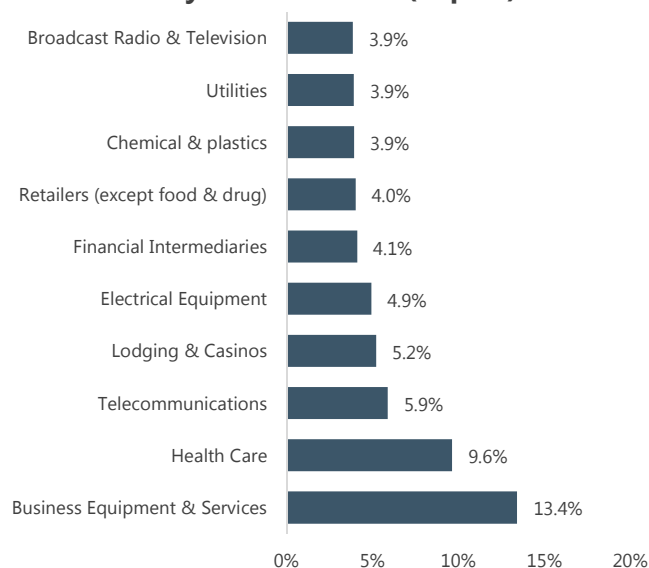
<sup>9</sup> Based on loan par value weighted by Partnership's proportional ownership of subordinated notes

## FOMC II LP INVESTMENT ADVISER'S REPORT, continued

### Portfolio Update, continued

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#### Industry Diversification (Top 10)



#### Top 10 Issuers and Portfolio Data

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Issuer	Company Rating (S&P)	% Gross <sup>13</sup>	Industry	Country
Albertson's	B+	0.81%	Food / Drug Retailers	United States
CenturyLink	BB	0.63%	Telecommunications	United States
Advantage Sales	B	0.60%	Food Service	United States
TransDigm	B+	0.58%	Aerospace & Defense	United States
Air Medical	B	0.54%	Health Care	United States
Rackspace Hosting	B+	0.52%	Telecommunications	United States
Calpine	B+	0.52%	Utilities	United States
First Data	B+	0.51%	Financial Intermediaries	United States
TPF/Eastern Power	B+	0.50%	Utilities	United States
Misys	B	0.50%	Business Equipment & Services	United States

#### Bank Loan Market Overview<sup>11</sup>

The Credit Suisse Leverage Loan Index returned 4.3% during 2017. As at 29 December 2017, the US loan market twelve month rolling default rate by number of issuers stood at 1.7%, down from 2.1% as at the end of 2016. The decline in late 2017 was due to several commodity-exposed issuers, which defaulted in 2015, being removed from the relevant twelve-month period.

Leveraged loans enjoyed a strong year in 2017 with \$1.4 trillion of total leveraged lending issuance, a jump of 60% compared to prior year. Of this amount, \$924 billion were institutional loans. Refinancing activity drove much of the loan issuance volume accounting for \$933 billion and breaking the 2013 refinancing volume record by 23%.

Loan volumes were driven by strong and broad investor demand for yield and increasing anticipation of rising interest rates. Strong demand pushed up bid prices during the year and the average bid prices for multi-quote institutional loans in the US secondary market increased by 126bps, ending 2017 at about 98.4.

<sup>10</sup> Based on loan par value weighted by Partnership's proportional ownership of subordinated notes

<sup>11</sup> Leveraged loan figures from Thomson Reuters: Leveraged Loan Monthly report for year end 2017

## FOMC II LP

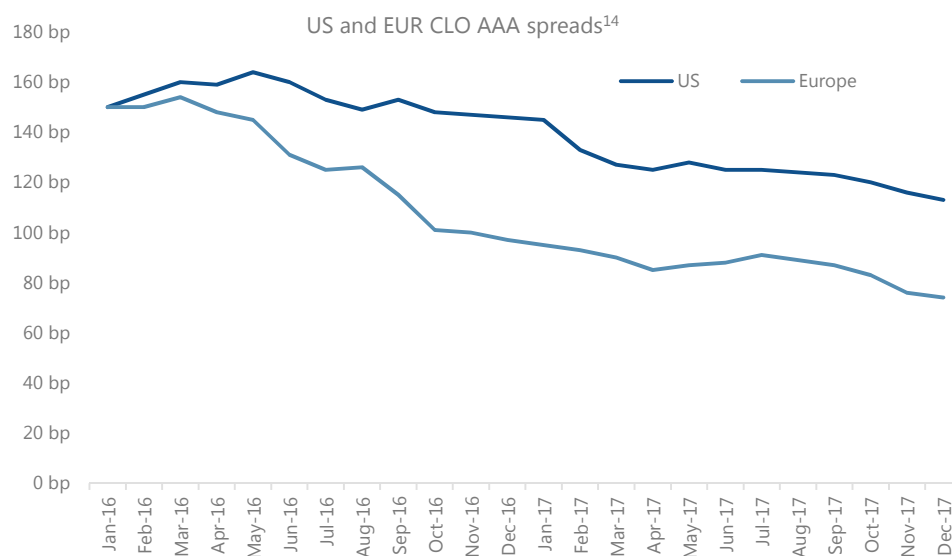
### INVESTMENT ADVISER'S REPORT, continued

#### CLO Market Overview

The CLO market recorded strong levels of new issuance in 2017 despite concerns that US CLO risk retention, which came into effect in December 2016, would dampen US CLO creation. US CLO issuance increased by 62% in 2017 to \$118.1 billion while European CLO issuance increased by 14% to €20.1 billion<sup>12</sup>. The total number of new deals created in US and Europe were 212 and 49 respectively and the number of CLOs refinanced or reset were 365 in the US and 70 in Europe.

Despite the increase in new issue volumes and refinancing and resets, CLO liability spreads continued to tighten throughout the year. US and European CLO AAA spreads tightened from 150bps and 96bps at the start 2017 to 115bps and 74bps at the end of 2017<sup>13</sup>. Strong relative value vs. corporate bonds increased demand for mezzanine CLO notes (especially BBB and BB-rated) while press reports and market comments pointed to a significant increase in demand for AAA and AA CLO notes from Japanese and other Asian investors.

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<sup>12</sup> Issuance levels from JP Morgan

<sup>13</sup> JP Morgan CLOIE Index

<sup>14</sup> JP Morgan Primary USD-CLO and EUR-CLO Index on AAA primary spreads to Libor/Euribor



## FOMC II LP

### INVESTMENT ADVISER'S REPORT, continued

#### CLO Market Overview, continued

We believe that US CLO equity arbitrage continues to offer one of the most attractive investment opportunities in the current credit markets as the long-term fixed spread of liabilities supports an attractive initial arbitrage and positive exposure to future loan market volatility. The following table illustrates the arbitrage present in the Master Fund's first investment in August 2014 and the latest control investment completed in October 2017 in the Partnership.

	First CLO Control Investment AWPT 2014-3	Latest 2017 CLO Control Investment Mariner 2017-4
Investment date	14-Aug-14	3-Oct-17
Initial Average Loan Portfolio Spread	+3.74%	+3.47%
Change in Loan Spread		-0.27%
AAA Spread	+1.55%	+1.22%
AA Spread	+2.35%	+1.72%
Weighted Average Cost of Funding	+2.32%	+1.82%
Change in Cost of Funding		-0.50%

In addition to the attractive initial arbitrage, CLO equity investments are unusual among credit assets in that they have the potential to benefit from loan price volatility in the future. For example, if loan spread and prepayment rates during the next five years reflect the levels and changes seen during 2013-2017, we estimate that the expected IRR for an illustrative CLO equity investment would increase by 4%<sup>15</sup>.

#### Risk Management

The Partnership and Master Fund continue to benefit from an experienced and dedicated team of research analysts who 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.

#### Outlook

The Investment Adviser continues to believe that the current CLO investments, held via the Partnership and Master Fund, 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.

As described in the report, we believe that the current CLO equity arbitrage continues to be attractive and is positioned to benefit from potential price volatility in the underlying bank loan market.

Furthermore, on February 9th, 2018, the U.S. Court of Appeals ruled that CLO managers are no longer subject to risk retention, reversing a lower court decision. In our view, the announcement will have a positive effect on the Partnership as it will increase the number of managers looking for third party CLO equity, potentially adding further diversity to the portfolio and improve the Partnership's negotiating position, and it will remove constraints in the refinancing or reset of non-risk-retention compliant CLOs in the portfolio, such that the Partnership will be able to refinance any transaction irrespective of whether it is currently risk retention compliant.

Fair Oaks Capital Limited  
18 April 2018

<sup>15</sup> Based on expected IRR as per Intex for Allegro VI, Partnership's latest investment. Weighted average new issue institutional spreads and repayment rates for the S&P/LSTA Loan Index. Source: S&P Global Market Intelligence. All other variables unchanged.

## **FOMC II LP**

### **STATEMENT OF GENERAL PARTNER'S RESPONSIBILITIES**

Fair Oaks Income Fund (GP) Limited (the "General Partner") is responsible for preparing the Financial Statements of FOMC II LP (the "Partnership") in accordance with applicable law and regulations and with the amended and restated Limited Partnership Agreement dated 9 March 2017 (the "LPA").

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors of Fair Oaks Income Fund (GP) Limited have accepted responsibility for the preparation of these non-statutory financial statements for the period from 24 February 2017 (date of establishment) to 31 December 2017 which are intended by them to give a true and fair view of the state of affairs of FOMC II LP (the "Partnership") and of the profit or loss for that period. They have decided to prepare the non-statutory financial statements in accordance with International Financial Reporting Standards as issued by the IASB.

In preparing these non-statutory financial statements, the directors have:

- 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 being disclosed and explained in the non-statutory financial statements;
- assessed the Partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- used the going concern basis of accounting unless they either intend to liquidate the Partnership or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for such internal control as they determine is necessary to enable the preparation of non-statutory financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Miguel Arraya  
Director of the General Partner  
18 April 2018

# INDEPENDENT AUDITOR'S REPORT TO THE PARTNERS OF FOMC II LP

## *Our opinion is unmodified*

We have audited the financial statements of FOMC II LP (the "Partnership"), which comprise the statement of financial position as at 31 December 2017, the statement of comprehensive income, the statement of changes in partnership interests and the statement of cash flows for the period from 24 February 2017 (date of incorporation) to 31 December 2017, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- give a true and fair view, in accordance with International Financial Reporting Standards as issued by the IASB of the financial position of the Partnership as at 31 December 2017, and of the Partnership's financial performance and the Partnership's cash flows for the period from 24 February 2017 (date of incorporation) to 31 December 2017;
- have been prepared in accordance with the requirements of the Limited Partnership Agreement dated 9 March 2017.

## *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Partnership in accordance with, UK ethical requirements including FRC Ethical Standards. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## *We have nothing to report on going concern*

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

## *We have nothing to report on the other information in the Annual Report*

The General Partner is responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

## *Respective responsibilities*

### *General Partner's' responsibilities*

As explained more fully in their statement set out on page 7, the General Partner is responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Partnership or to cease operations, or have no realistic alternative but to do so.

# INDEPENDENT AUDITOR'S REPORT TO THE PARTNERS OF FOMC II LP, continued

*Respective responsibilities, continued*

## *Auditor's responsibilities*

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## *The purpose of this report and restrictions on its use by persons other than the Partners*

This report is made solely to the Partners, in accordance with the terms of our engagement letter dated 18 October 2017. Our audit work has been undertaken so that we might state to the Partners those matters we are required to state to it 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 Partners, for our audit work, for this report, or for the opinions we have formed.

**KPMG Channel Islands Limited**  
Chartered Accountants, Guernsey

18 April 2018

**FOMC II LP****STATEMENT OF COMPREHENSIVE INCOME**

For the period from 24 February 2017 (date of establishment) to 31 December 2017

		For the period 24 February 2017 to 31 December 2017 US\$
	Note	
<b>Revenue</b>		
Net gains on financial assets at fair value through profit or loss	6	32,177,011
Investment income	6	1,944,155
Net foreign exchange loss		(49)
Other income		3,548
<b>Total revenue</b>		<b>34,124,665</b>
<b>Expenses</b>		
Priority profit share	8	539,053
Carried interest	8	404,214
Audit fees		14,799
Administration fees		21,422
Legal and professional fees		106,516
Custodian fees		16,172
General Partner expenses	8	21,673
Other expenses		4,733
<b>Total expenses</b>		<b>1,128,582</b>
<b>Profit and total comprehensive income for the period</b>		<b>32,996,083</b>

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

The accompanying notes on pages 14 to 34 form an integral part of the Financial Statements.

## FOMC II LP

### STATEMENT OF CHANGES IN PARTNERSHIP INTERESTS

For the period from 24 February 2017 (date of establishment) to 31 December 2017

	Note	Founder Partner US\$	Limited Partner US\$	Total US\$
At 24 February 2017		-	-	-
Contributions during the period	10	350	358,920,957	358,921,307
Total comprehensive income for the period		-	32,996,083	32,996,083
Income distributions declared during the period	4	-	(47,157,522)	(47,157,522)
<b>At 31 December 2017</b>		<b>350</b>	<b>344,759,518</b>	<b>344,759,868</b>

The accompanying notes on pages 14 to 34 form an integral part of the Financial Statements.



**FOMC II LP**  
**STATEMENT OF FINANCIAL POSITION**  
**At 31 December 2017**

	<b>Note</b>	<b>31 December 2017 US\$</b>
<b>Assets</b>		
Cash and cash equivalents		6,744,808
Other receivables and prepayments	9	23,797,617
Financial assets at fair value through profit or loss	6	339,639,224
<b>Total assets</b>		<b>370,181,649</b>
<b>Liabilities</b>		
Trade and other payables	11	187,085
Carried interest payable	8	404,214
Distribution payable	4	24,830,482
<b>Total liabilities</b>		<b>25,421,781</b>
<b>Net assets</b>		<b>344,759,868</b>
<b>Partnership interests represented by:</b>		
Limited Partner		344,759,518
Founder Partner		350
<b>Total partnership interests</b>		<b>344,759,868</b>

The Financial Statements on pages 10 to 34 were approved and authorised for issue by the General Partner on 18 April 2018 and signed on its behalf by:

Miguel Arraya  
Director  
For and on behalf of Fair Oaks Income Fund (GP) Limited

The accompanying notes on pages 14 to 34 form an integral part of the Financial Statements.

## FOMC II LP

### STATEMENT OF CASH FLOWS

For the period from 24 February 2017 (date of establishment) to 31 December 2017

	For the period 24 February 2017 to 31 December 2017 US\$
<b>Cash flows used in operating activities</b>	
Profit for the period	32,996,083
Adjustments for:	
Investment income	(1,944,155)
Net gains on financial assets at fair value through profit or loss	(32,177,011)
Net unrealised loss on foreign exchange	49
	<u>(1,125,034)</u>
Increase in other receivables and prepayments	(2,030)
Increase in other payables	187,085
Increase in carried interest payable	404,214
Purchase of investments*	(128,447,831)
Capital distributions from Master Fund during the period	29,999,547
Capital distributions from Cycad during the period	397,936
Income distributions from Master Fund during the period	21,751,569
Income distributions from Cycad during the period	747,864
Coupon interest received	1,944,216
<b>Net cash flow used in operating activities</b>	<u><b>(74,142,464)</b></u>
<b>Cash flows from financing activities</b>	
Proceeds from capital contributions**	103,214,361
Income distributed during the period	(22,327,040)
<b>Net cash flow from financing activities</b>	<u><b>80,887,321</b></u>
<b>Net increase in cash and cash equivalents</b>	<b>6,744,857</b>
<b>Cash and cash equivalents at beginning of period</b>	-
<b>Effect of foreign exchange rate changes during the period</b>	(49)
<b>Cash and cash equivalents at end of period</b>	<u><b>6,744,808</b></u>

\*Refer to Note 6 for non-cash transactions.

\*\* Refer to Note 10 for non-cash transactions.

The accompanying notes on pages 14 to 34 form an integral part of the Financial Statements.

# FOMC II LP

## NOTES TO THE FINANCIAL STATEMENTS

For the period 24 February 2017 (date of establishment) to 31 December 2017

### 1. GENERAL INFORMATION

FOMC II LP (the "Partnership") was registered in Guernsey on 24 February 2017 under The Limited Partnerships (Guernsey) Law, 1995, as amended. The Partnership 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 Partnership commenced operations following the enactment of the Amended and Restated Limited Partnership Agreement on 9 March 2017 (the "LPA") and is due to terminate on 12 June 2024. The Partnership may be dissolved earlier, pursuant to conditions in the LPA.

The Partnership 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 Partnership's investment objective of generating attractive risk-adjusted returns, principally through income distributions.

During the period, the Partnership has made an investment into FOIF LP (the "Master Fund") and subsequently holds 62.82% of the commitment capital of the Master Fund. The Partnership also made an investment into Cycad Investments LP ("Cycad") and holds 14.96% of the commitment capital of Cycad. The General Partner has determined that the Partnership has all the elements of control as prescribed by IFRS 10 in relation to the Master Fund, as the Partnership is the majority limited partner in the Master Fund, is exposed and has rights to the returns of the Master Fund and has the ability either directly or through the Investment Adviser to affect the amount of its returns from the Master Fund.

With effect from 23 February 2017, Fair Oaks Income Fund (GP) Limited (the "General Partner") was appointed as the General Partner to the Partnership and with effect from 9 March 2017, Fair Oaks Capital Ltd (the "Investment Adviser") was appointed as the Investment Adviser to the Partnership.

### 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 Partnership'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 Partnership for the period to which it relates and does not omit any matter or development of significance.

The Partnership 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.

#### New, revised and amended 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 Partnership, but have not been applied in these Financial Statements, were in issue but not yet effective:

- 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");

## FOMC II LP

### NOTES TO THE FINANCIAL STATEMENTS, continued

For the period 24 February 2017 (date of establishment) to 31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES, continued

**New, revised and amended Accounting Standards and interpretations applicable to future reporting periods, continued**

- IFRS 15, "Revenue from Contracts with Customers" (effective for periods commencing on or after 1 January 2018);

In addition, the IASB completed its Disclosure Initiative project in January 2017 and its Annual Improvements 2014-2017 Cycle project in December 2017. 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 Partnership as the majority of the Partnership's financial assets are designated at fair value through profit or loss. As explained further on page 17, the Master Fund meets the criteria to be classified as an investment entity and subsequently has determined that it shall not consolidate 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. As the business model of the Master Fund will continue to be managed on the same basis going forward, the classification and measurement of the Master Fund investments into the CLO investments will be largely unchanged when IFRS 9 replaces IAS 39.

### **Investment Income**

Investment income comprises interest income receivable on the Partnership'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.

### **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 recognized in the Statement of Comprehensive Income.

### **Expenses**

Expenses of the Partnership 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 Partnership are accounted for at fair value through profit or loss in accordance with IAS 39. As the Partnership'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.

## FOMC II LP

### NOTES TO THE FINANCIAL STATEMENTS, continued

For the period 24 February 2017 (date of establishment) to 31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES, continued

### **Financial Assets and Liabilities**

#### ***Classification, continued***

The Partnership 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 and prepayments. 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 Partnership includes in this category trade and other payables, carried interest payable and distribution 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.

#### ***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 Partnership 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.

## FOMC II LP

### NOTES TO THE FINANCIAL STATEMENTS, continued

For the period 24 February 2017 (date of establishment) to 31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES, continued

### Financial Assets and Liabilities, continued

In order for the Investment Entities exception to be relevant to the Partnership, 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 2017, the General Partner had determined that seven CLOs on a look through basis 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 Partnership 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 Partnership prepares individual financial statements only, with its investments in the subsidiaries measured at fair value through profit or loss.

### Foreign Currency

#### *Functional and presentation currency*

The Financial Statements of the Partnership are presented in the currency of the primary economic environment in which the Partnership operates (the "functional currency"). The General Partner has considered the primary economic currency of the Partnership and considered the currency in which the original finance was raised, distributions made, and ultimately what currency would be returned if the Partnership 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 Partnership. 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 Partnership are presented in US Dollar, which has been selected as the presentation currency of the Partnership. 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 Partnership 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 Partnership that has been deducted at source is allocated to individual Limited Partners in accordance with the LPA.



## FOMC II LP

### NOTES TO THE FINANCIAL STATEMENTS, continued

For the period 24 February 2017 (date of establishment) to 31 December 2017

#### 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 Partnership as at 31 December 2017 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 2017, the General Partner was satisfied that the Partnership met the definition of an investment entity, and had also concluded that seven investments on a look through basis met the definition of a subsidiary in accordance with IFRS 10, with the remaining CLOs on a look through basis in which the Partnership invests meeting the definition of structured entities in accordance with IFRS 12. These conclusions are further detailed in Note 7 – 'Interest in Other Entities'.

##### **Estimates**

###### ***Fair value***

The Partnership records its investments both in the Master fund and in Cycad at fair value, where the fair values are determined as the Partnership's share of the NAV of the investments. The Investment Adviser has reviewed the NAV of the investments and determined that no adjustments regarding liquidity discounts were required. The fair values of other 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. 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 Partnership'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 Partnership 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.

## FOMC II LP

### NOTES TO THE FINANCIAL STATEMENTS, continued

For the period 24 February 2017 (date of establishment) to 31 December 2017

#### 4. DISTRIBUTIONS

Pursuant to clause 13 of the LPA, all income proceeds and capital proceeds of the Partnership (after payment of expenses and liabilities) are allocated to the Limited Partner in accordance with its respective interest 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% on the Limited Partners outstanding capital commitment, excluding capital and interest proceeds received from the Master Fund); and
- fourth, 85 per cent to the Limited Partners and 15 per cent to the Founder Partner.

Income proceeds of the Partnership 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 Partnership.

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

During the period 24 February 2017 to 31 December 2017, the Partnership declared income distributions totalling US\$47,157,522 to the Limited Partners, of which US\$24,830,482 remained outstanding as at 31 December 2017.

#### 5. FINANCIAL RISK MANAGEMENT

The General Partner has overall responsibility for the establishment and oversight of the Partnership's risk management framework. The Partnership's risk management policies are established to identify and analyse the risks faced by the Partnership, 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 Partnership's activities. Below is a non-exhaustive summary of the risks that the Partnership is exposed to as a result of its use of financial assets:

##### 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 Partnership's income and/or the value of its holdings in financial assets.

The Partnership's exposure to market risk comes mainly from movements in the value of its investments. Changes in credit spreads may further affect the Partnership's net equity or net income directly through their impact on unrealised gains or losses on investments within the portfolio and therefore the Partnership's ability to make gains on such investments, or indirectly through their impact on the Partnership'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 Partnership 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 Partnership's market positions are monitored on a quarterly basis by the General Partner.

## FOMC II LP

### NOTES TO THE FINANCIAL STATEMENTS, continued

For the period 24 February 2017 (date of establishment) to 31 December 2017

#### 5. FINANCIAL RISK MANAGEMENT, continued

##### Market Risk, continued

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 Partnership does not apply hedge accounting.

##### *Interest Rate Risk*

The Partnership is exposed to interest rate risk through investments held by the Master Fund and Cycad, on a look-through basis to the underlying assets in the CLOs.

The Partnership invests directly into CLOs and also indirectly through its investment in the Master Fund and Cycad. The Master Fund and Cycad invest in CLOs. The majority of the Partnership's financial assets comprise investments held indirectly through the Master Fund, which invests in Income Notes and Mezzanine tranches of cash flow CLOs. The Partnership'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 2017, the interest rate profile of the portfolio held directly by the Partnership and on a look through basis to the underlying Limited Partnerships was as follows:

	Partnership	31 December 2017		Total
	US\$	Master Fund US\$	Cycad US\$	US\$
Investments with exposure to a floating interest rate	115,190,150	234,158,960	16,608,032	365,957,142
Financial assets at fair value through profit or loss	<b>115,190,150</b>	<b>234,158,960</b>	<b>16,608,032</b>	<b>365,957,142</b>

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 2017
Possible reasonable change in rate	Effect on net assets and profit or loss US\$
-1%	4,238,806
1%	2,661,172

##### *Currency risk*

Investments acquired are predominantly denominated in US Dollar. However, the Partnership 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 Partnership 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 Partnership.

The Partnership 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 Partnership considering the liquidity risk that is attached to any derivative contracts that could be used (e.g. margin calls on those contracts).

## FOMC II LP

### NOTES TO THE FINANCIAL STATEMENTS, continued

For the period 24 February 2017 (date of establishment) to 31 December 2017

#### 5. FINANCIAL RISK MANAGEMENT, continued

##### Market Risk, continued

As at 31 December 2017, the total net foreign currency exposure on a look through basis was as follows:

	31 December 2017			
	Partnership US\$	Master Fund* US\$	Cycad* US\$	Total US\$
<b>EUR Exposure</b>				
Financial assets at fair value through profit or loss	-	3,081,172	-	3,081,172
Derivatives at fair value through profit or loss	-	(3,092,552)	-	(3,092,552)
Other payables	-	-	-	-
<b>Net EUR Exposure</b>	<b>-</b>	<b>(11,380)</b>	<b>-</b>	<b>(11,380)</b>
	31 December 2017			
	Partnership US\$	Master Fund* US\$	Cycad* US\$	Total US\$
<b>GBP Exposure</b>				
Cash and cash equivalents	-	750	-	750
Other receivables	-	857	-	857
Other payables	(16,381)	(62,908)	(2,479)	(81,768)
<b>Net GBP Exposure</b>	<b>(16,381)</b>	<b>(61,301)</b>	<b>(2,479)</b>	<b>(80,161)</b>
<b>NET EXPOSURE</b>	<b>(16,381)</b>	<b>(72,681)</b>	<b>(2,479)</b>	<b>(91,541)</b>

\*Based on the Partnership's proportionate percentage share exposure of the Master Fund at 62.82% and Cycad at 14.96%.

	Possible change in exchange rate	31 December 2017 net exposure US\$	31 December 2017 effect on net assets and profit or loss (if unhedged) US\$
EUR/US Dollar	+/- 15%	(11,380)	+/- 1,707
GBP/US Dollar	+/- 10%	(80,161)	+/- 8,016

The sensitivity rate of 15% is regarded as reasonable due to the recent volatility of US Dollar against Euro.  
The sensitivity rate of 10% is regarded as reasonable due to the recent volatility of US Dollar against Sterling.

All of the Partnership's loans are dominated in US Dollar.

##### 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 Partnership's investments increased or decreased by +/- 1% at the year end, the impact on the NAV would be +/- US\$3,396,392.

##### 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 Partnership's prospectus, and by taking collateral.

# FOMC II LP

## NOTES TO THE FINANCIAL STATEMENTS, continued

For the period 24 February 2017 (date of establishment) to 31 December 2017

### 5. FINANCIAL RISK MANAGEMENT, continued

#### Credit and Counterparty Risk, continued

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

	<b>31 December 2017</b>
	<b>US\$</b>
Cash and cash equivalents	6,744,808
Other receivables and prepayments	23,797,617
Financial assets at fair value through profit or loss	339,639,224
	<b>370,181,649</b>

The cash and substantially all of the assets of the Partnership are held by BNP Paribas Securities Services S.C.A., Guernsey Branch (the "Custodian"). Bankruptcy or insolvency of the Custodian may cause the Partnership'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 2017 was Aa3 as rated by Moody's and A by Standard & Poor's.

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 Partnership, 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 Partnership's exposure to the credit risk of all of the directly held underlying CLO investments and its investments into the Master Fund and Cycad based on the country of registration (not necessarily asset class exposure) is as follows:

	<b>31 December 2017</b>			
	<b>Partnership</b>	<b>Master Fund</b>	<b>Cycad</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
United States of America	115,190,150	-	15,890,400	131,080,550
Guernsey	-	208,558,674	-	208,558,674
<b>Total</b>	<b>115,490,150</b>	<b>208,558,674</b>	<b>15,890,400</b>	<b>339,639,224</b>

The underlying CLO investments geographical breakdown is as follows:

	<b>31 December 2017</b>
<b>Country*</b>	<b>%</b>
United States of America	90.0
Other	3.0
Canada	2.3
Luxembourg	2.0
United Kingdom	1.1
Netherlands	0.9
Germany	0.7
<b>Total</b>	<b>100.0</b>

\*Shows the Partnership's exposure in the underlying CLO investments includes its exposure through its investments in the Master Fund and Cycad.

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

# FOMC II LP

## NOTES TO THE FINANCIAL STATEMENTS, continued

For the period 24 February 2017 (date of establishment) to 31 December 2017

### 5. FINANCIAL RISK MANAGEMENT, continued

#### Credit and Counterparty Risk, continued

The table below summarises the Partnership's portfolio concentrations on a look through basis:

	Maximum portfolio holdings of a single asset % of total portfolio*	Average portfolio holdings % of total portfolio*
31 December 2017	7.89%	2.13%

\*Shows the Partnership's exposure in the underlying CLO investments includes its exposure through its investments in the Master Fund and Cycad.

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

By Asset Class	31 December 2017 US\$
Equity CLO	115,190,150
Limited Partnerships	224,449,074
	<b>339,639,224</b>

The underlying on a look through basis CLO investments rating breakdown is as follows:

Rating*	31 December 2017 %
B	43.1
B+	22.0
BB-	13.2
B-	12.0
BB	4.3
BB+	2.0
NR	1.3
CCC+	1.1
BBB-	0.5
CCC	0.2
D	0.2
CCC-	0.1
<b>Total</b>	<b>100.0</b>

\*Shows the Partnership's exposure in the underlying CLO investments includes its exposure through its investments in the Master Fund and Cycad.

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

The Partnership'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 2 and 3 for further details.

#### Liquidity Risk

Liquidity risk is the risk that the Partnership 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 Partnership 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 Partnership's reputation.

The Partnership'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 Partnership's cash balances, expenses and income from investments on a regular basis and specifically before approving any distribution to Limited Partners.



**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the period 24 February 2017 (date of establishment) to 31 December 2017**

**5. FINANCIAL RISK MANAGEMENT, continued**

**Liquidity Risk, continued**

<b>31 December 2017</b>	<b>Less than 3 months US\$</b>	<b>6 – 12 months US\$</b>	<b>1 – 3 years US\$</b>	<b>3 – 4 years US\$</b>	<b>4 – 5 years US\$</b>	<b>5 – 6 years US\$</b>	<b>Total US\$</b>
<b>Financial assets</b>							
Financial assets at fair value through profit or loss	-	-	-	208,558,674	90,190,150	40,890,400	339,639,224
Other receivables and prepayments	23,797,617	-	-	-	-	-	23,797,617
Cash and cash equivalents	6,744,808	-	-	-	-	-	6,744,808
<b>Total financial assets</b>	<b>30,542,425</b>	<b>-</b>	<b>-</b>	<b>208,558,674</b>	<b>90,190,150</b>	<b>40,890,400</b>	<b>370,181,649</b>
<b>Financial liabilities</b>							
Other payables	-	(187,085)	-	-	-	-	(187,085)
Carried interest payable	-	-	-	-	-	(404,214)	(404,214)
Distribution payable	(24,830,482)	-	-	-	-	-	(24,830,482)
<b>Total financial liabilities</b>	<b>(24,830,482)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(404,214)</b>	<b>(25,421,781)</b>
<b>Liquidity gap</b>	<b>5,711,943</b>	<b>(187,085)</b>	<b>-</b>	<b>208,558,674</b>	<b>90,190,150</b>	<b>40,486,186</b>	<b>344,759,868</b>
<b>Total cumulative liquidity gap</b>	<b>5,711,943</b>	<b>5,524,858</b>	<b>5,524,858</b>	<b>214,083,532</b>	<b>304,273,682</b>	<b>344,759,868</b>	<b>344,759,868</b>

## FOMC II LP

### NOTES TO THE FINANCIAL STATEMENTS, continued

For the period 24 February 2017 (date of establishment) to 31 December 2017

#### 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 Partnership'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 Partnership 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 Partnership'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 Partnership. The Partnership'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 Partnership.

##### Concentration Risk

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

	31 December 2017
Industry*	%
Business equipment and services	13.4
Health care	9.6
Telecommunications	5.9
Lodging and casinos	5.2
Electronics / electrical	4.9
Financial intermediaries	4.1
Retailers (except food and drug)	4.0
Chemical and plastics	3.9
Utilities	3.9
Broadcast Radio & Television	3.9
	<b>58.8</b>

\*Shows the Partnership's exposure in the underlying CLO investments includes its exposure through its investments in the Master Fund and Cycad.

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

## FOMC II LP

### NOTES TO THE FINANCIAL STATEMENTS, continued

For the period 24 February 2017 (date of establishment) to 31 December 2017

#### 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 2017 US\$
Cost at the start of the period	-
Purchases during the period*	384,154,777
Capital distributions from Master Fund during the period	(29,999,547)
Capital distributions from Cycad during the period	(397,936)
Investment income	1,944,155
Coupon interest received and repayments	(1,944,216)
Amortised cost of investments at the end of the period	353,757,233
Net unrealised losses on investments at the end of the period	(14,118,009)
<b>Financial assets at fair value through profit or loss at the end of the period</b>	<b>339,639,224</b>
Movement in net unrealised losses on investments during the period	(14,118,009)
Income distributions from Master Fund during the period	44,804,908
Income distributions from Cycad during the period	1,490,112
<b>Net gains on financial assets at fair value through profit or loss</b>	<b>32,177,011</b>

\*,\*Comprises 128,447,831 cash transactions and US\$255,706,946 of non-cash in specie transfer for the Partnership's 62.82% of commitment capital in the Master Fund. This investment was transferred in specie in exchange for commitment capital within this Partnership.

The following table provides a reconciliation of the financial assets at fair value through profit or loss held directly by the Partnership and on a look through basis to the underlying Limited Partnerships:

	31 December 2017 US\$
The Partnership's direct financial assets at fair value through profit or loss	115,190,150
Master Fund's financial assets at fair value through profit or loss	234,158,960
Cycad Investment LP's financial assets at fair value through profit or loss	16,608,032
<b>Total Financial Assets at fair value through profit or loss on a look through basis</b>	<b>365,957,142</b>
Master Fund's other net liabilities	(25,600,286)
Cycad's other net liabilities	(717,632)
<b>The Partnership's Financial Assets at Fair Value through profit or loss</b>	<b>339,639,224</b>

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.

# FOMC II LP

## NOTES TO THE FINANCIAL STATEMENTS, continued

For the period 24 February 2017 (date of establishment) to 31 December 2017

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

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.

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 Partnership'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 2017			
	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
Financial assets at fair value through profit or loss	-	-	339,639,224	339,639,224
<b>Total</b>	<b>-</b>	<b>-</b>	<b>339,639,224</b>	<b>339,639,224</b>

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

	31 December 2017 US\$
Opening Balance	-
Purchases during the period	384,154,777
Capital distributions from the Master Fund during the period	(29,999,547)
Capital distributions from Cycad during the period	(397,936)
Investment income	1,944,155
Coupon interest received and repayments	(1,944,216)
Net unrealised losses on financial assets held at fair value through profit or loss	(14,118,009)
Closing Balance	<b>339,639,224</b>
Unrealised losses on financial assets held at fair value through profit or loss at the end of the period	(14,118,009)

#### Transfers between Level 1, 2 and 3

There have been no transfers between levels during the period ended 31 December 2017. Transfers between levels of the fair value hierarchy are recognised as at the end of the reporting period during which the change has occurred.

# FOMC II LP

## NOTES TO THE FINANCIAL STATEMENTS, continued

For the period 24 February 2017 (date of establishment) to 31 December 2017

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

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

	31 December 2017			
	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
<b>Assets:</b>				
Cash and cash equivalents	-	6,744,808	-	6,744,808
Distributions receivable	-	23,795,587	-	23,795,587
Other receivables and prepayments	-	2,030	-	2,030
<b>Total</b>	-	<b>30,542,425</b>	-	<b>30,542,425</b>
<b>Liabilities:</b>				
Trade and other payables	-	187,085	-	187,085
Carried interest payable	-	404,214	-	404,214
Distributions payable	-	24,830,482	-	24,830,482
<b>Total</b>	-	<b>25,421,781</b>	-	<b>25,421,781</b>

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 Partnership for settlement of trades and expenses.

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

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

The following table summarises the valuation methodologies used for the Company's investments in Limited Partnerships categorised in Level 3 as at 31 December 2017:

Security	Fair Value US\$	Valuation methodology	Unobservable inputs	Ranges
Master Fund	208,558,674	NAV	Zero % discount	N/A
Cycad	15,890,400	NAV	Zero % discount	N/A
	<u>224,449,074</u>			

# FOMC II LP

## NOTES TO THE FINANCIAL STATEMENTS, continued

For the period 24 February 2017 (date of establishment) to 31 December 2017

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

The Partnership 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 Partnership's investments categorised in Level 3 as at 31 December 2017:

Asset Class	Fair Value US\$	Unobservable inputs	Ranges	Average	Sensitivity to changes in significant unobservable inputs
<u>Income Note CLOs</u>					
United States of America	115,190,150	Prices provided by a third party agent	US\$0.8600 – US\$0.9700	US\$0.9322	1% increase/decrease will have a fair value impact of +/- US\$1,151,901
<u>Limited Partnerships</u>					
Master Fund	208,558,674	Zero % discount	N/A	N/A	1% increase/decrease will have a fair value impact of +/- US\$2,085,587
Cycad	15,890,400	Zero % discount	N/A	N/A	1% increase/decrease will have a fair value impact of +/- US\$158,904
	<u>339,639,224</u>				

### 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 directly and indirectly on a look through basis, 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 2017, the Partnership had seven subsidiary on a look through basis 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.



## FOMC II LP

### NOTES TO THE FINANCIAL STATEMENTS, continued

For the period 24 February 2017 (date of establishment) to 31 December 2017

#### 7. INTERESTS IN OTHER ENTITIES, continued

##### **Interest in unconsolidated structured entities, continued**

In the case of Arrowpoint CLO 2014-3 Limited, Covenant Credit Partners CLO II Limited, Allegro CLO II Limited, TICP CLO IV Limited, Neuberger Berman CLO XIX Ltd, Ares XXXV CLO Limited and Shackleton 2015-VIII CLO 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 Partnership 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 Partnership 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 Partnership to control the contractual payments of returns, and it is therefore an indication of linkage between power and variability in returns.

The Partnership is also considered to have contingent power over the seven entities, due to the fact that it could remove Arrowpoint CLO 2014-3 Limited, Covenant Credit Partners CLO II Limited, Allegro CLO II Limited, TICP CLO IV Limited, Neuberger Berman CLO XIX Ltd, Ares XXXV CLO Limited and Shackleton 2015-VIII CLO Limited’s collateral managers in certain contingent circumstances as the Partnership is the majority shareholder in the most sub-ordinated tranche of the CLO. It can therefore be considered that the Partnership 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 Partnership must meet the definition of an investment entity. The General Partner is satisfied that it meets the required criteria of an investment entity.

# FOMC II LP

## NOTES TO THE FINANCIAL STATEMENTS, continued

For the period 24 February 2017 (date of establishment) to 31 December 2017

### 7. INTERESTS IN OTHER ENTITIES, continued

#### Interest in unconsolidated structured entities, continued

Below is a summary of the Partnership's holdings in non-subsiary unconsolidated structured entities on a look through basis, the Master Fund and Cycad, as at 31 December 2017:

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
<u>Mezzanine Note CLOs</u>											
<i>North America</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub- Investment Grade Secured Loans - USD	21	1,256,400 – 8,166,600	4,112,272	85,078,449	23.25%	85,078,449	10,886,634	Interest income	Non-recourse*
<b>Total Mezzanine Note CLOs</b>	<b>Financial assets at fair value through profit or loss</b>		<b>21</b>	<b>1,256,400 – 8,166,600</b>	<b>4,112,272</b>	<b>85,078,449</b>	<b>23.25%</b>	<b>85,078,449</b>	<b>10,886,634</b>		<b>Non-recourse*</b>
<u>Income Note CLOs</u>											
<i>North America</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub- Investment Grade Secured Loans - USD	12	6,167,914 – 30,050,000	17,844,512	178,601,376	48.80%	178,601,376	17,104,418	Residual Interest income	Non-recourse*
<i>Europe</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub- Investment Grade Secured Loans - EUR	1	3,832,020	3,832,020	3,081,172	0.84%	3,081,172	603,104	Residual interest income	Non-recourse*
<b>Total Income Note CLOs</b>	<b>Financial assets at fair value through profit or loss</b>		<b>13</b>	<b>3,832,020 – 30,050,000</b>	<b>21,676,532</b>	<b>181,682,548</b>	<b>49.64%</b>	<b>181,682,548</b>	<b>17,707,522</b>		<b>Non-recourse*</b>
<b>Total</b>			<b>34</b>			<b>266,760,997**</b>	<b>72.89%</b>	<b>266,760,997</b>	<b>28,594,156</b>		

The Partnership has a percentage range of 0.27% to 6.60% notional holding out of the entire outstanding notional balances of the non-subsiary unconsolidated structured entities as at 31 December 2017.

During the period ended 31 December 2017, the Partnership did not provide financial support to the non-subsiary 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 Partnership's maximum loss is capped at the current carrying value.

\*\* The Partnership's total fair value holding in non-subsiary unconsolidated structured entities (above), plus the total fair value holding of its unconsolidated structured entities subsidiaries on page 32 agrees to the financial assets at fair value through profit or loss on a look through basis on page 26, where a reconciliation to the financial assets at fair value through profit or loss in the Statement of Financial Position is shown.

# FOMC II LP

## NOTES TO THE FINANCIAL STATEMENTS, continued

For the period 24 February 2017 (date of establishment) to 31 December 2017

### 7. INTERESTS IN OTHER ENTITIES, continued

#### Interest in unconsolidated structured entities, continued

Summary of the Partnership's holdings in unconsolidated subsidiaries on a look through basis, the Master Fund and Cycad, as at 31 December 2017:

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
<u>Mezzanine Note CLOs</u>											
<i>North America</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub- Investment Grade Secured Loans - USD	4	2,701,260 – 6,910,200	4,852,845	19,557,925	5.34%	19,557,925	2,155,986	Interest income	Non-recourse*
<b>Total Mezzanine Note CLOs</b>	<b>Financial assets at fair value through profit or loss</b>		<b>4</b>	<b>2,701,260 – 6,910,200</b>	<b>4,852,845</b>	<b>19,557,925</b>	<b>5.34%</b>	<b>19,557,925</b>	<b>2,155,986</b>		<b>Non-recourse*</b>
<u>Income Note CLOs</u>											
<i>North America</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub- Investment Grade Secured Loans - USD	9	1,601,294 – 19,073,723	14,149,264	79,638,220	21.76%	79,638,220	16,834,799	Residual interest income	Non recourse*
<b>Total Income Note CLOs</b>	<b>Financial assets at fair value through profit or loss</b>		<b>9</b>	<b>1,601,294 – 19,073,723</b>	<b>14,149,264</b>	<b>79,638,220</b>	<b>21.76%</b>	<b>79,638,220</b>	<b>16,834,799</b>		<b>Non recourse*</b>
<b>Total</b>			<b>13</b>			<b>99,196,145**</b>	<b>27.10%</b>	<b>99,196,145</b>			

The Partnership has a percentage range of 0.65% to 4.65% 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, TICP CLO IV. Limited, Neuberger Berman CLO XIX Ltd, Ares XXXV CLO Limited and Shackleton 2015-VIII CLO Limited as at 31 December 2017.

There were no purchases or sales of investments in subsidiaries during the period ended 31 December 2017.

For the financial period ended 31 December 2017, the Partnership 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 Partnership's maximum loss is capped at the current carrying value.

\*\* The Partnership'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 on a look through basis on page 26, where a reconciliation to the financial assets at fair value through profit or loss in the Statement of Financial Position is shown.

## FOMC II LP

### NOTES TO THE FINANCIAL STATEMENTS, continued

For the period 24 February 2017 (date of establishment) to 31 December 2017

#### 8. RELATED PARTIES AND OTHER MATERIAL CONTRACTS

##### Transactions with key management personnel

###### *General Partner*

The General Partner of the Partnership is entitled to receive a Priority Profit Share from the Partnership 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 period amounted to US\$539,053 of which US\$151,506 was included in other payables at 31 December 2017. During the period, the Partnership paid expenses of US\$21,673 on behalf 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\$150 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 Partnership NAV.

During the period ended 31 December 2017, one Limited Partner had committed over US\$150 million and received a rebate of US\$269,934 of its Priority Profit Share.

The Partnership 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 Partnership 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 2017, US\$404,214 carried interest had been accrued for the benefit of the Founder Partner.

##### Other Material Contracts

###### *Administrator*

With effect from 9 March 2017, 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 Partnership per annum, subject to a minimum annual fee of US\$65,000, payable quarterly in arrears for Administration and Accounting services. The overall charge for the above-mentioned fees for the Partnership and the amounts due are disclosed below for information purposes.

###### *Custodian*

With effect from 9 March 2017, BNP Paribas Securities Services S.C.A., Guernsey Branch (the "Custodian") was appointed as the custodian.

The Custodian is entitled to receive aggregate fees of up to 0.03% per annum of the NAV of the Partnership for the provision of trustee and custodial services to the Partnership, subject to a minimum annual fee of US\$30,000.

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

	<b>31 December 2017</b>
	<b>US\$</b>
<b>CHARGE FOR THE PERIOD</b>	
Priority profit share	539,053
Carried interest	404,214
Administration fees	21,422
Custodian fees	16,172
Expenses on behalf of the General Partner	21,673
<b>OUTSTANDING FEES</b>	
Priority profit share	151,506
Carried interest	404,214
Administration fees	4,545
Custodian fees	14,974
Expenses on behalf of the General Partner	1,058

# FOMC II LP

## NOTES TO THE FINANCIAL STATEMENTS, continued

For the period 24 February 2017 (date of establishment) to 31 December 2017

### 9. Other receivables and prepayments

	31 December 2017 US\$
Income distribution receivable from Master Fund	23,053,339
Income distribution receivable from Cycad	742,248
Accrued income receivable	1,680
Founder Partner committed capital receivable	350
	<u>23,797,617</u>

### 10. 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 2017:	Contributed Capital US\$	Loan Capital* US\$	Total US\$
Opening Balance	-	-	-
Net contributions during the year	3,589	358,917,368	358,920,957
Closing balance	<u>3,589</u>	<u>358,617,368</u>	<u>358,920,957</u>

\*Comprises US\$103,214,361 cash transactions and US\$255,706,946 of non-cash in specie capital contribution in exchange for the Partnership's 62.82% of commitment capital in the Master Fund.

As at 31 December 2017, there was US\$48,500,000 of 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\$350 of capital to the Partnership, of which US\$350 remained outstanding at 31 December 2017. On the final closing date (12 June 2017) 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 Partnership at the final closing date.

### 11. TRADE AND OTHER PAYABLES

	31 December 2017 US\$
Priority profit share payable (Note 8)	151,506
Administration fees payable (Note 8)	4,545
Audit fees payable	15,002
Custodian fee payable (Note 8)	14,974
Sundry expenses payable	1,058
	<u>187,085</u>

### 12. SUBSEQUENT EVENTS

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

**FOMC II LP**  
**PORTFOLIO STATEMENT (unaudited)**  
**As at 31 December 2017**

	<b>Market value 2017 US\$</b>	<b>Percentage of NAV 2017 %</b>
<b>US Dollar</b>		
FOIF LP ORDS	208,558,674	60.49
Elevation CLO LTD TB 17-150729	28,878,050	8.38
Mariner CLO 2017-4x SUB	28,023,300	8.13
Allegro CLO VI Limited	25,000,000	7.25
AIMCO 2017-AX Sub Jul 20, 2029 REGS	23,288,800	6.76
Cycad Investments LP ORDS	15,890,400	4.61
POST CLO 2018-1 Limited	10,000,000	2.90
	<b>339,639,224</b>	<b>98.52</b>



## **FOMC II 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)

#### **Registered Office and Business Address**

Sarnia House  
Le Truchot  
St Peter Port  
Guernsey GY1 1GR

#### **Administrator and Secretary**

Praxis Fund Services Limited  
Sarnia House  
Le Truchot  
St Peter Port  
Guernsey GY1 1GR

#### **Investment Adviser**

Fair Oaks Capital Ltd  
67-68 Jermyn Street  
London SW1Y 6NY

#### **General Partner**

Fair Oaks Income Fund (GP) Limited  
Sarnia House  
Le Truchot  
St Peter Port  
Guernsey GY1 1GR

#### **Legal Advisers in Guernsey**

Carey Olsen  
Carey House  
Les Banques  
St Peter Port  
Guernsey GY1 4BZ

#### **Legal Advisers in United Kingdom**

Dechert LLP  
160 Queen Victoria Street  
London EC4V 4QQ

#### **Custodian and Principal Bankers**

BNP Paribas Securities Services S.C.A.  
BNP Paribas House  
St Julian's Avenue  
St Peter Port  
Guernsey GY1 1WA

#### **Registrar**

Link Market Services Limited  
*(formerly Capita Registrars (Guernsey) Limited)*  
Mont Crevelt Houser  
Bulwer Avenue  
St Sampson  
Guernsey GY2 4LH

#### **Independent Auditor**

KPMG Channel Islands Limited  
Gategny Court  
Gategny Esplanade  
St Peter Port  
Guernsey GY1 1WR

## **APPENDIX 2**

### **ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS RELATING TO MASTER FUND II FOR THE PERIOD ENDED 31 DECEMBER 2018**

**FOMC II LP**

**ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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## FOMC II LP INVESTMENT ADVISER'S REPORT

### Portfolio Update

As at 31 December 2018, FOMC II LP (the "Partnership") held twenty-two CLO equity positions and three B rated CLO mezzanine investments offering exposure to 1,182 loan issuers<sup>1</sup> and fifteen CLO managers. Control CLO equity positions represented 95.0% of the portfolio.

Figure 1.1 – CLO manager diversification of the Partnership<sup>1</sup>

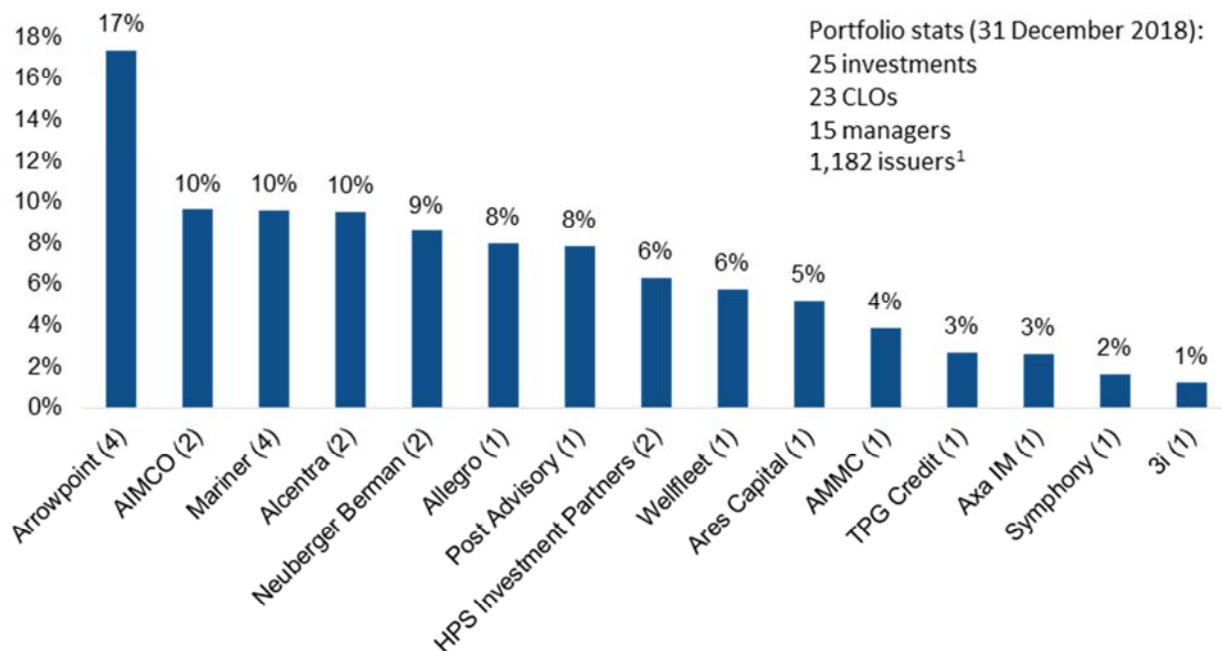
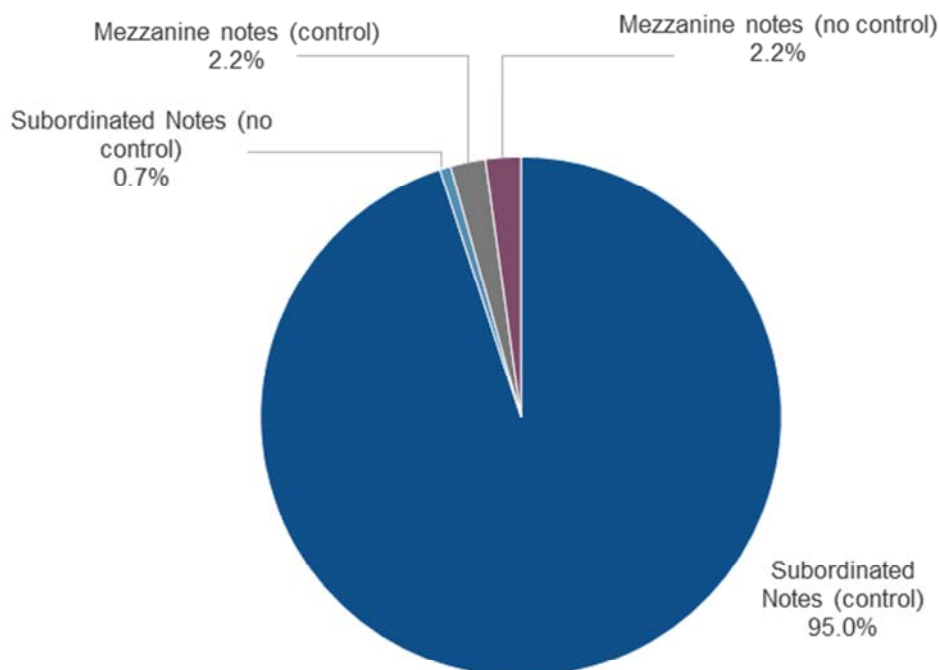


Figure 1.2 – Portfolio composition of the Partnership<sup>2</sup>



<sup>1</sup>Based on the underlying loans in CLOs in which the Partnership holds equity.

<sup>2</sup>Based on December 2018 valuations of the portfolio.

## FOMC II LP

### INVESTMENT ADVISER'S REPORT, continued

#### Portfolio Update, continued

FOIF LP (the "Master Fund") exited two control equity investments (Covenant Credit Partners CLO II and Ares XXXV). Fifteen CLO mezzanine positions in the Master Fund were repaid at par in 2018 and the Master Fund sold seven CLO mezzanine positions at a weighted average price of 98.3 US cents (the seven mezzanine investments were purchased at a weighted average purchase price of 79.5 US cents). Principal proceeds received by the Partnership and the new capital raised for the strategy were reinvested into five new CLOs (Table 1.3)

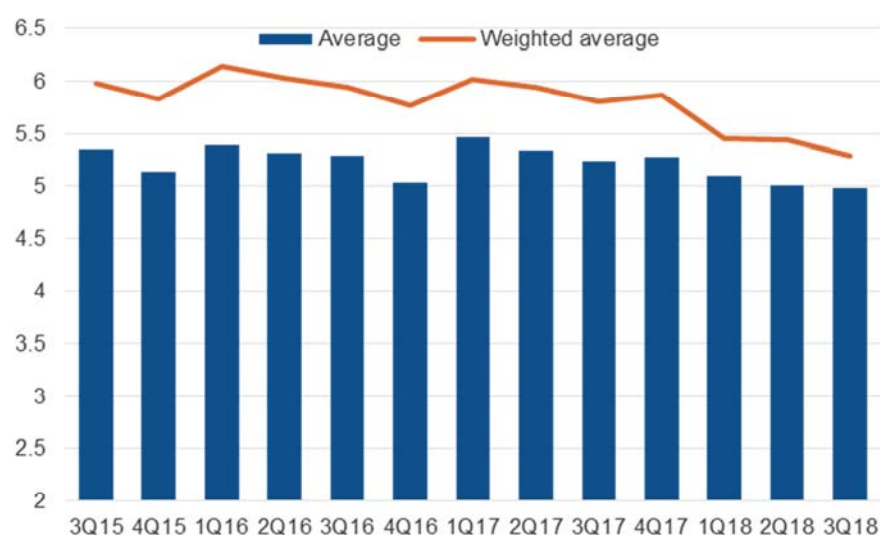
Table 1.3: New purchases in 2018 by the Partnership

Purchase date	Nominal (US\$)	Deal name	CLO manager	CLO Loan portfolio spread	US loan market spread <sup>3</sup>	AAA cost of funding in the CLO	US primary market AAA CLO <sup>4</sup>
April 2018	39,282,500	Post CLO 2018-1	Post Advisory Group	353bps	347bps	105bps	108bps
May 2018	28,875,000	Wellfleet CLO 2018-1	Wellfleet Credit Partners	336bps	346bps	110bps	109bps
June 2018	26,000,000	Ares XXXVR CLO	Ares CLO Management	339bps	345bps	105bps	111bps
June 2018	30,000,000	Shackleton 2018-XII CLO	Alcentra NY	336bps	345bps	107bps	111bps
August 2018	31,687,500 <sup>5</sup>	HPS Loan Management 13-2018	HPS Investment Partners	339bps	347bps	116bps	119bps

#### Loan Market Update<sup>6</sup>

While we continue to be cautious about credit quality in the loan market, average leverage of US loans decreased from 5.2x in Q3 2017 to 5.0x in Q3-2018 (Figure 1.4)<sup>7</sup> while interest coverage was robust at 3.5x as at Q3 2018 (Figure 1.5)<sup>7</sup>.

Figure 1.4 – Average leverage of outstanding loans<sup>7</sup>



<sup>3</sup>Based on average loan spreads from Credit Suisse Leveraged Loan index on purchase date of the investment.

<sup>4</sup>Based on AAA CLO primary spreads from JP Morgan on purchase date of the investment.

<sup>5</sup>Total includes the mezzanine portion that the Partnership also acquired in the CLO.

<sup>6</sup>US loan issuance, first-lien spreads and fund flows from LPC & Lipper: Refinitiv – Leveraged loan market overview, as at 31 December 2018

<sup>7</sup>S&P/LSTA Loan index to Q3 2018.



## FOMC II LP INVESTMENT ADVISER'S REPORT, continued

### Loan Market Update, continued

Figure 1.5 – Average cash-flow coverage of outstanding loans<sup>8</sup>

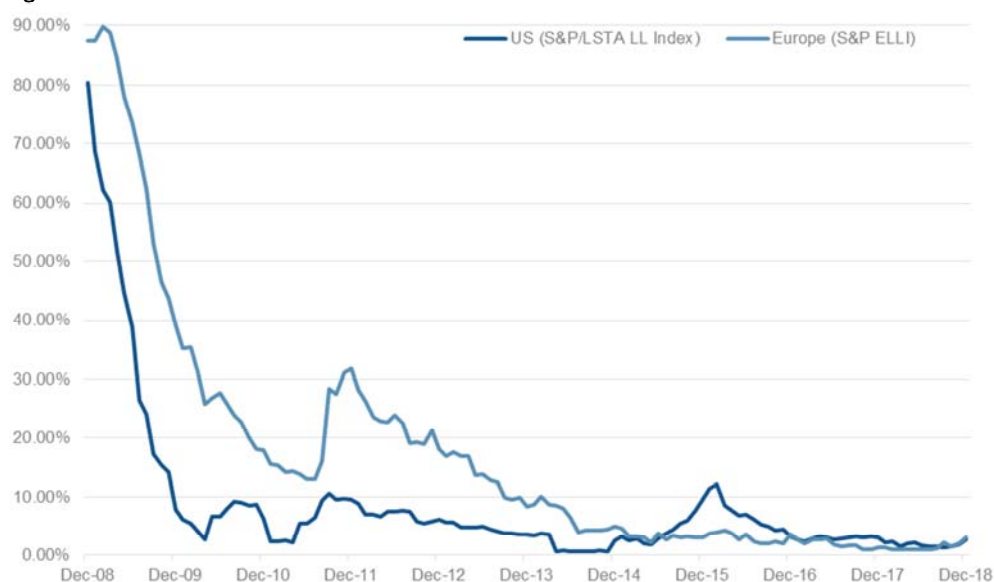


The rolling twelve-month default rate increased to 2.42% in Q1 2018, after Clear Channel Communications filed for Chapter 11, but closed the year at 1.63%<sup>9</sup>. In total, 29 companies defaulted on US\$40.9 billion of debt in 2018. Excluding the default from Clear Channel Communications, which represented US\$16 billion or 38% of total volume, default activity was the lowest since 2013<sup>10</sup>.

The top three sectors contributing to 2018's defaults were Energy (29%), Retail (23%) and Consumer Products (10%)<sup>10</sup>.

The distressed ratio in the US and Europe, defined as percentage of loans trading below 80c, continues to be well below the historical averages (Figure 1.6).

Figure 1.6 – Distressed ratio: Euro vs US loans<sup>11</sup>



<sup>8</sup> S&P/LSTA Loan index to Q3 2018.

<sup>9</sup> Twelve-month US default rate by principal amount from S&P/ LSTA Leveraged Loan index.

<sup>10</sup> JP Morgan Morning Intelligence, as at 31 December 2018.

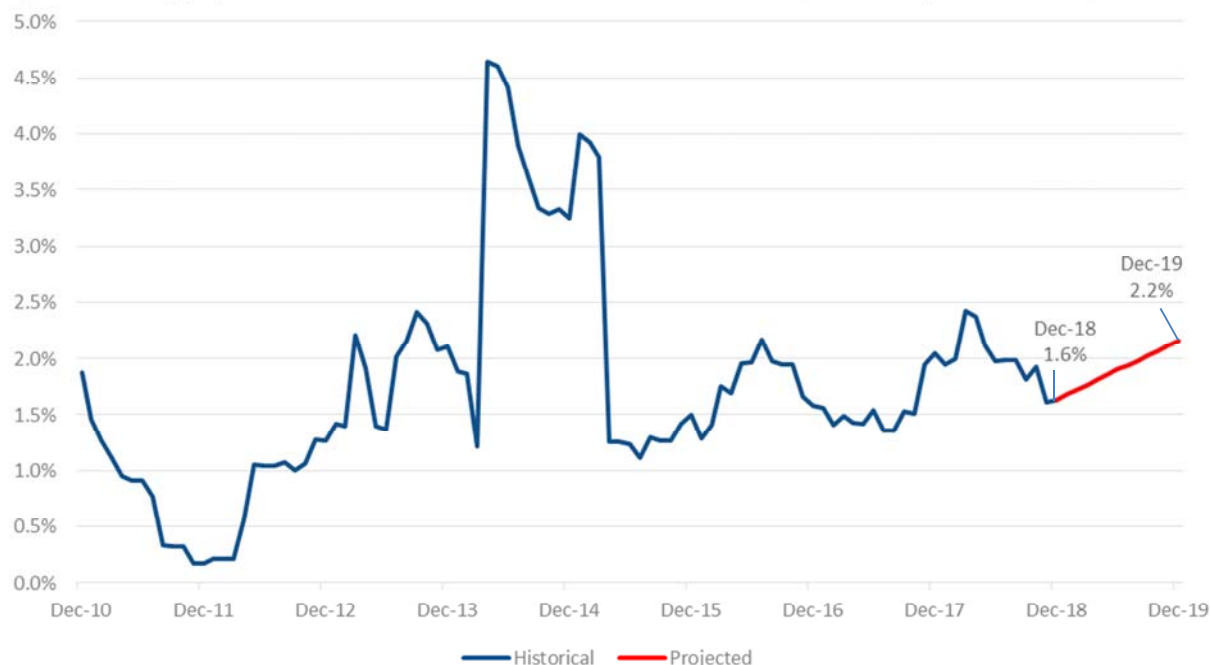
<sup>11</sup> Based on S&P/LSTA Leveraged Loan Index and S&P European Leveraged Loan Index Distress Ratio by principal amount. Data as at Q4 2018.

## FOMC II LP INVESTMENT ADVISER'S REPORT, continued

### Loan Market Update, continued

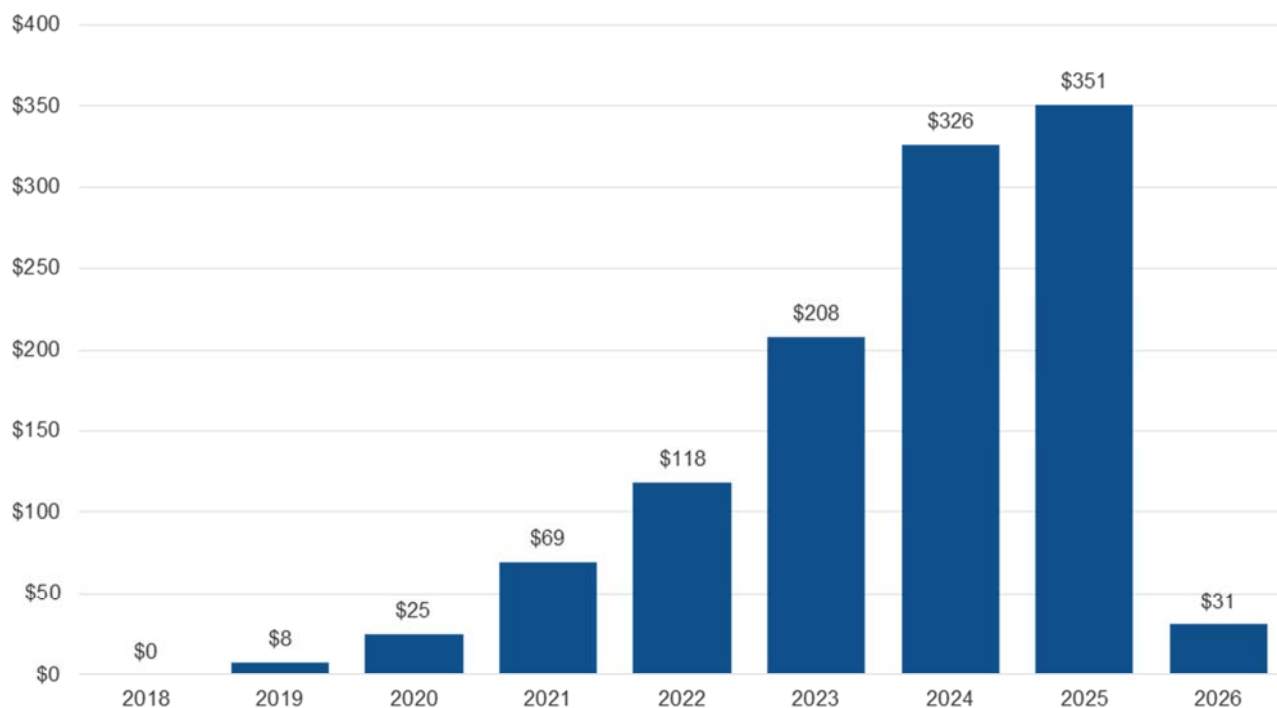
As a consequence, according to a survey published by S&P Global Intelligence in December 2018<sup>12</sup>, loan managers' expect the default rates to reach 2.16% in December 2019 (see Figure 1.7). From the same survey performed in December 2017, loan managers had predicted a higher default rate for December 2019 at 2.65%.

Figure 1.7 - Lagging twelve-month default rate: historical and current expectations(forecast through to December 2019)<sup>12</sup>



The market's low default expectations are also supported by the very limited amount of loans set to mature over the next three years. The notional of loans maturing in 2019-2021 has fallen from US\$572 billion in 2015 to US\$102 billion in 2018<sup>13</sup>.

Figure 1.8 – Maturity wall of the US loan market of performing loans in 2018 (US\$ billion)<sup>13</sup>



<sup>12</sup> S&P Global Intelligence default survey as at December 2018.

<sup>13</sup> S&P Global Intelligence, Q4 2018. Distribution by year of maturity.

## FOMC II LP

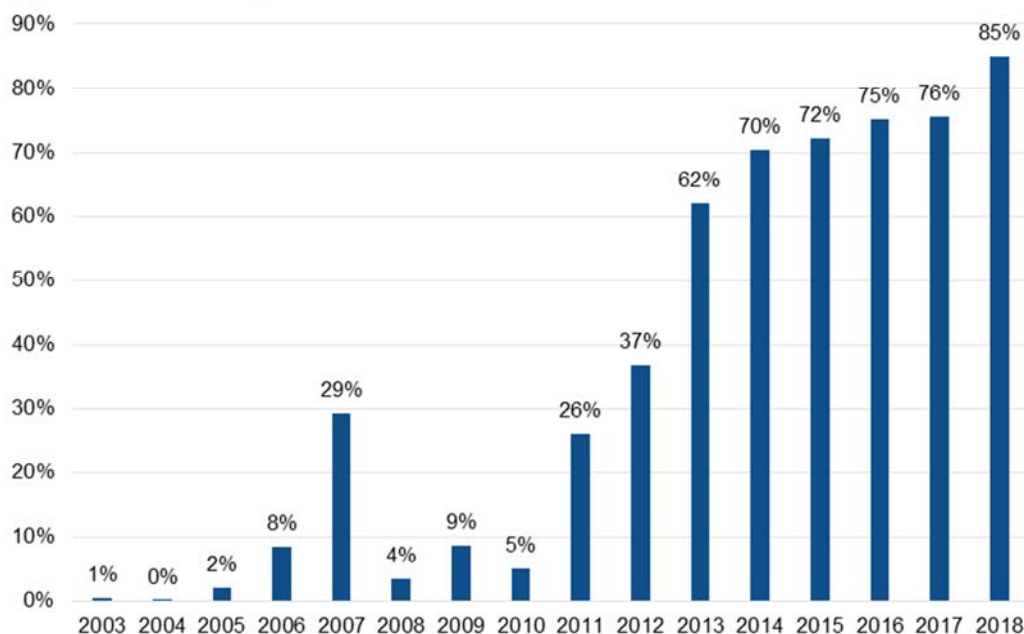
### INVESTMENT ADVISER'S REPORT, continued

#### Loan Market Update, continued

Loan recovery rates, however, will likely be influenced by prevalence of cov-lite loans. The dominance of cov-lite loans and their impact on defaults and recoveries was the subject of significant press coverage in 2018.

Cov-lite loans have become the market standard (Figure 1.9) and unrealistic investment constraints insisting on investment in loans with maintenance covenants may force managers to invest in weaker issuers (which are unable to issue under market standard terms).

Figure 1.9 – Percentage of cov-lite loans in institutional loans<sup>14</sup>



In our view, the prevalence of cov-lite loans is likely to result in lower default rates, lower recoveries and lower spreads. There will be lower default rates as higher quality companies which may have breached maintenance covenants in previous cycles, do not default. Recoveries will be lower as the higher recovery rates from issuers that do not default are excluded from the average. Finally, a reduced ability to demand margin increases in exchange for covenant waivers will result in lower spreads.

Beyond cov-lite loans, our current concerns on loan documentation include weaker incurrence covenants and excessive EBITDA adjustments, which result in under-reported leverage.

A review of loan markets in 2018 would not be complete without a comment on the volatility experienced in November and December.

A combination of negative credit headlines and a change in investor expectations regarding future US interest rates resulted in large withdrawals from open-ended loan funds in what traditionally are slow weeks around the Thanksgiving holidays and pre-Christmas period.

Bank loan investors are predominantly long-term, closed-ended vehicles such as collateralised loan obligations ("CLOs"). Since August 2012, long-term, non-mark-to-market capital provided by CLOs has represented between 41% and 51% of the US loan market<sup>15</sup>. Open-ended loan funds and ETFs have accounted for between 12% and 23% of the market during the same period<sup>16</sup>. Despite their small relative size, open-ended funds and ETFs have the potential to represent a large percentage of trading volumes at times of volatility because of the shorter-term nature of their investors. This means that they can have an outsized impact on average US loan prices.

Loan fund outflows in November 2018 reached US\$4.1 billion, the largest monthly selling volume since December 2015<sup>16</sup>. Outflows then increased to US\$11.6 billion in December<sup>17</sup>. As a result, the US loan market total return was -0.82% in November and -2.29% in December 2018<sup>17</sup>. As the size of fund outflows reduced and opportunistic loan investors entered the market, US loans returned +2.30% in January 2019<sup>18</sup>.

<sup>14</sup> S&P Global Intelligence.

<sup>15</sup> Lipper, Refinitiv: Leveraged Loan monthly, November 2018.

<sup>16</sup> Lipper, Refinitiv: Leveraged Loan to December 2018.

<sup>17</sup> Total return of Credit Suisse Leveraged Loan index.

## FOMC II LP INVESTMENT ADVISER'S REPORT, continued

### CLO Market Update<sup>18</sup>

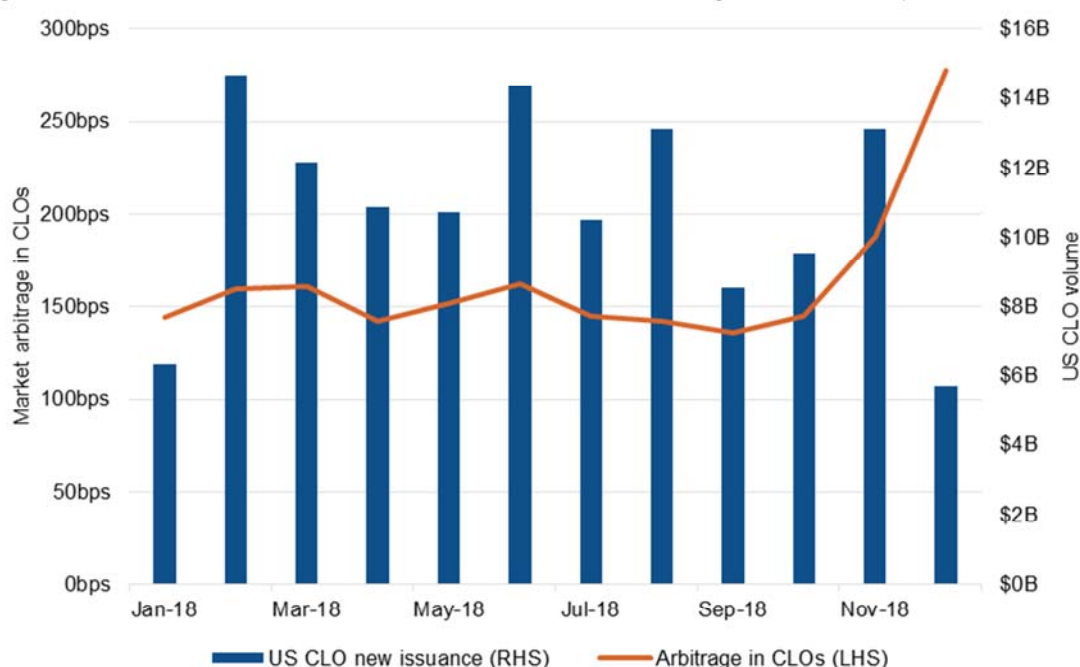
2018 US CLO new issuance was up 10% from 2017 to US\$129.7 billion while European CLO new issuance was up 34% from 2017 to €27.0 billion.

The first three quarters of 2018 were unusual in that the expected self-regulating mechanism provided by CLOs (lower arbitrage should reduce CLO issuance, reducing demand for loans and, hence, resulting in a wider arbitrage) seemed to be absent.

The spread of the Credit Suisse Leveraged Loan index fell from Libor+4.16% as at 31 December 2017 to Libor+3.81 as at 28 September 2018<sup>19</sup>. The spread of BB rated loans (a more appropriate proxy for CLO's higher average credit quality holdings), also fell from Libor+2.68% to Libor+2.55% in the same period<sup>20</sup>.

Strong CLO new issuance, which exceeded US\$10 billion per month on each month except January 2018 and September 2018 resulted in wider US CLO AAA liabilities (from Libor+1.15% as at 31 December 2017 to Libor+1.20% as at 28 September 2018<sup>21</sup>) and made CLO arbitrage more challenging in the first three quarters of 2018 (Figure 1.10).

Figure 1.10: US CLO new issuance volume and market arbitrage on BB loan spreads in 2018<sup>22</sup>



Although it is tempting to conclude from Figure 1.10 that the CLO arbitrage was particularly compelling at the end of 2018, this view was largely theoretical given the impossibility of ramping up and pricing a CLO during the last weeks of the year.

The Partnership continued to identify and take advantage of investment opportunities in a very selective manner. All new five investments in 2018 benefitted from conservative portfolios with attractive AAA financing levels, as shown earlier in Table 1.3.

<sup>18</sup>CLO issuance from JP Morgan, as at 31 December 2018.

<sup>19</sup>Based on 3-year loan discount margin from Credit Suisse Leveraged loan index.

<sup>20</sup>Based on 3-year loan discount margin of BB rated loans from Credit Suisse Leveraged loan index.

<sup>21</sup>US CLO AAA spreads from JP Morgan during 2018.

<sup>22</sup>US CLO issuance and primary AAA CLO spreads from JP Morgan. Loan spreads from Credit Suisse Leveraged Loan Index.

## FOMC II LP

### INVESTMENT ADVISER'S REPORT, continued

#### CLO Market Update, continued

As a longer term comparison, the table below illustrates the arbitrage present in the Partnership and the Master Funds' (together "the Master Funds") first investment in August 2014 and the last investments closed in 2017 and 2018.

Table 1.11 – Historical arbitrage

	First CLO Control Investment	Last 2017 CLO Control Investment	Last 2018 CLO Control Investment
	AWPT 2014-3	Mariner 2017-4	HLM 13X-2018
Trade date	14 August 2014	3 October 2017	27 September 2018
Initial average loan portfolio spread	3.74%	3.47%	3.39%
<b>Difference vs 2014</b>	-	<b>(-27bps)</b>	<b>(-35 bps)</b>
AAA Spread	1.55%	1.22%	1.16%
AA Spread	2.35%	1.72%	1.70%
Weighted average cost of funding	2.32%	1.82%	1.70%
<b>Difference vs 2014</b>	-	<b>(-50 bps)</b>	<b>(-62 bps)</b>

#### Outlook

We will continue to seek the best risk-adjusted opportunities for the Partnership in the CLO equity and debt primary and secondary markets. Low new issuance in early 2019 has resulted in limited visibility to date in terms of pricing of new issue CLO liabilities while wider spreads, particularly in sub-investment grade CLO liabilities could create buying opportunities for the strategy.

The Partnership continues to offer a compelling investment opportunity for those investors looking to invest in global senior secured bank loans through CLOs:

#### ***One of the most attractive relative value opportunities within private credit markets***

CLO equity and debt are effective ways to invest in portfolios of higher quality senior secured loans to established borrowers using long-term, non-recourse, non-mark-to-market financing at attractive levels. A combination of low expected defaults and loan price volatility has the potential to be very supportive of existing CLO equity investments which will benefit from their low fixed cost of financing.

#### ***Diverse and high quality existing portfolio***

The Partnership holds exposure to a seasoned and diversified portfolio of 25 investments in 23 CLOs managed by 15 different managers, giving a total exposure to 1,182 loan issuers<sup>23</sup>.

#### ***Enhanced returns via active control investments***

Investments in control CLO equity positions give the Master Funds the ability to optimise CLO investments, control their lifecycle and actively manage credit risk. CLO investments in more conservative loan portfolios, with lower spreads, can generate higher returns based on reduced CLO manager fees and arranger fees.

Furthermore, a control position combined with independence ensures that CLOs can be refinanced or liquidated at the optimal point for the investors.

#### ***Positioned to benefit from market volatility***

CLO equity investments benefit from long-term, fixed-spread liabilities and the option to reinvest principal proceeds during the CLO's investment period (typically four to five years). The Partnership's CLO investments benefit from tight borrowing spreads, which have the potential to enhance the initial arbitrage as higher-spread assets become available. As principal repayments are reinvested in new loans with wider spreads, the incremental interest income over the fixed cost of financing will benefit CLO equity investors.

#### ***Experienced team and strong alignment of interest***

Our senior investment team has over 20 years of average corporate credit and securitisation experience dedicated to sourcing, analysing, negotiating, selecting and monitoring corporate credit investments. Fair Oaks believes that its active monitoring of the portfolio and superior access to credit views and analysis has enabled it to outperform, with the Master Fund (earliest vehicle) experiencing annualised default rates since inception in June 2014 to the end of 2018 of 0.22% compared to a twelve-month default rate in the US loan market of 1.63% at the end of 2018.

Fair Oaks Capital Limited  
10 April 2019

<sup>23</sup>Based on the underlying loans in CLOs in which the Partnership holds equity.

## **FOMC II LP**

### **STATEMENT OF GENERAL PARTNER'S RESPONSIBILITIES**

Fair Oaks Income Fund (GP) Limited (the "General Partner") is responsible for preparing the Financial Statements of FOMC II LP (the "Partnership") in accordance with applicable law and regulations and with the amended and restated Limited Partnership Agreements dated 9 March 2017 and 12 March 2019 (the "LPA").

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors of Fair Oaks Income Fund (GP) Limited have accepted responsibility for the preparation of these non-statutory financial statements for the year ended 31 December 2018 (the "Financial Statements") which are intended by them to give a true and fair view of the state of affairs of the Partnership and of the profit or loss for that period. They have decided to prepare the non-statutory Financial Statements in accordance with International Financial Reporting Standards as issued by the IASB.

In preparing these non-statutory Financial Statements, the directors have:

- 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 being disclosed and explained in the non-statutory Financial Statements;
- assessed the Partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- used the going concern basis of accounting unless they either intend to liquidate the Partnership or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of non-statutory Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Partnership and to prevent and detect fraud and other irregularities.

Miguel Arraya  
Director of the General Partner  
10 April 2019



# INDEPENDENT AUDITOR'S REPORT TO THE PARTNERS OF FOMC II LP

## Our opinion is unmodified

We have audited the financial statements of FOMC II LP (the "Partnership"), which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, the statement of changes in partnership interests and the statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

### In our opinion, the accompanying financial statements:

- give a true and fair view, in accordance with International Financial Reporting Standards as issued by the IASB of the financial position of the Partnership as at 31 December 2018, and of the Partnership's financial performance and the Partnership's cash flows for the year then ended;
- have been prepared in accordance with the requirements of the Limited Partnership Agreements dated 9 March 2017 and 12 March 2019.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Partnership in accordance with, UK ethical requirements including FRC Ethical Standards. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

## We have nothing to report on the other information in the Annual Report

The General Partner is responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

## We have nothing to report on other 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:

- proper accounting records have not been kept by the General Partner; or
- the Partnership's statement of financial position and statement of comprehensive income are not in agreement with the accounting records; or
- any report of the General Partner is not consistent with the statement of financial position and the statement of comprehensive income; or
- we have not obtained all access, information and explanations which we think necessary for the purpose of our audit.

## Respective responsibilities

### *General Partner's responsibilities*

As explained more fully in their statement set out on page 9, the General Partner is responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Partnership or to cease operations, or have no realistic alternative but to do so.

# **INDEPENDENT AUDITOR'S REPORT TO THE PARTNERS OF FOMC II LP, continued**

## **Auditor's responsibilities**

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## **The purpose of this report and restrictions on its use by persons other than the Partners**

This report is made solely to the Partners, in accordance with the terms of our engagement letter dated 18 October 2017. Our audit work has been undertaken so that we might state to the Partners those matters we are required to state to it 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 Partners, for our audit work, for this report, or for the opinions we have formed.

**KPMG Channel Islands Limited**  
*Chartered Accountants, Guernsey*

10 April 2019

**FOMC II LP**  
**STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 December 2018

		1 January 2018 to 31 December 2018 US\$	For the period 24 February 2017 to 31 December 2017 US\$
	Note		
<b>Revenue</b>			
Net (losses)/gains on financial assets at fair value through profit or loss	6	(24,726,003)	32,177,011
Investment income	6	28,934,703	1,944,155
Net gains/(losses on derivatives at fair value through profit or loss and foreign exchange		718,465	(49)
Other income		62,698	3,548
<b>Total revenue</b>		<b>4,989,863</b>	<b>34,124,665</b>
<b>Expenses</b>			
Priority profit share	8	2,113,987	539,053
Carried interest	8	(404,214)	404,214
Audit fees		127,086	14,799
Administration fees	8	109,450	21,422
Legal and professional fees		12,432	106,516
Custodian fees	8	49,570	16,172
General Partner expenses	8	68,449	21,673
Other expenses		39,218	4,733
<b>Total expenses</b>		<b>2,115,978</b>	<b>1,128,582</b>
<b>Profit and total comprehensive income for the year/period</b>		<b>2,873,885</b>	<b>32,996,083</b>

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

The accompanying notes on pages 16 to 43 form an integral part of the Financial Statements.

**FOMC II LP**  
**STATEMENT OF CHANGES IN PARTNERSHIP INTERESTS**  
For the year ended 31 December 2018

	<b>Note</b>	<b>Founder Partner US\$</b>	<b>Limited Partner US\$</b>	<b>Total US\$</b>
At 1 January 2018		350	344,759,518	344,759,868
Contributions during the year	10	-	70,200,000	70,200,000
Total comprehensive income for the year		-	2,873,885	2,873,885
Income distributions declared during the year	4	-	(50,828,148)	(50,828,148)
<b>At 31 December 2018</b>		<b>350</b>	<b>367,005,255</b>	<b>367,005,605</b>

	<b>Note</b>	<b>Founder Partner US\$</b>	<b>Limited Partner US\$</b>	<b>Total US\$</b>
At 24 February 2017 (date of establishment)		-	-	-
Contributions during the period	10	350	358,920,957	358,921,307
Total comprehensive income for the period		-	32,996,083	32,996,083
Income distributions declared during the period	4	-	(47,157,522)	(47,157,522)
<b>At 31 December 2017</b>		<b>350</b>	<b>344,759,518</b>	<b>344,759,868</b>

The accompanying notes on pages 16 to 43 form an integral part of the Financial Statements.

**FOMC II LP**  
**STATEMENT OF FINANCIAL POSITION**  
**At 31 December 2018**

	Note	31 December 2018 US\$	31 December 2017 US\$
<b>Assets</b>			
Cash and cash equivalents		4,016,841	6,744,808
Other receivables and prepayments	9	6,255,796	23,797,617
Financial assets at fair value through profit or loss	6	370,132,597	339,639,224
<b>Total assets</b>		<b>380,405,234</b>	<b>370,181,649</b>
<b>Liabilities</b>			
Trade and other payables	11	316,698	187,085
Distribution payable	4	12,908,631	24,830,482
Derivatives at fair value through profit or loss		174,300	-
Carried interest payable	8	-	404,214
<b>Total liabilities</b>		<b>13,399,629</b>	<b>25,421,781</b>
<b>Net assets</b>		<b>367,005,605</b>	<b>344,759,868</b>
<b>Partnership interests represented by:</b>			
Limited Partner		367,005,255	344,759,518
Founder Partner		350	350
<b>Total partnership interests</b>		<b>367,005,605</b>	<b>344,759,868</b>

The Financial Statements on pages 12 to 43 were approved and authorised for issue by the General Partner on 10 April 2019 and signed on its behalf by:

Miguel Arraya  
Director  
For and on behalf of Fair Oaks Income Fund (GP) Limited

The accompanying notes on pages 16 to 43 form an integral part of the Financial Statements.

**FOMC II LP**  
**STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2018**

		<b>1 January 2018 to 31 December 2018 US\$</b>	<b>For the period 24 February 2017 to 31 December 2017 US\$</b>
<b>Cash flows used in operating activities</b>			
Profit for the year/period		2,873,885	32,996,083
Adjustments to reconcile profit to net cash flows:			
Investment income	6	(28,934,703)	(1,944,155)
Net losses/(gains) on financial assets at fair value through profit or loss	6	24,726,003	(32,177,011)
Net unrealised (gains)/losses on derivatives at fair value through profit or loss and foreign exchange		(718,465)	49
		<u>(2,053,280)</u>	<u>(1,125,034)</u>
Decrease/(increase) in other receivables and prepayments		336	(2,030)
Increase in other payables		129,613	187,085
(Decrease)/increase in carried interest payable	8	(404,214)	404,214
Purchase of investments*	6	(229,409,366)	(128,447,831)
Sale of investments	6	61,126,531	-
Capital distributions from Master Fund during the year/period	6	96,753,930	29,999,547
Capital distributions from Cycad during the year/period	6	600,913	397,936
Income distributions from Master Fund during the year/period		40,073,657	21,751,569
Income distributions from Cycad during the year/period		1,320,051	747,864
Coupon interest received	6	20,791,096	1,944,216
<b>Net cash flow used in operating activities</b>		<b><u>(11,070,733)</u></b>	<b><u>(74,142,464)</u></b>
<b>Cash flows from financing activities</b>			
Proceeds from capital contributions**	10	70,200,000	103,214,361
Income distributed during the year/period		<u>(62,749,999)</u>	<u>(22,327,040)</u>
<b>Net cash flow from financing activities</b>		<b><u>7,450,001</u></b>	<b><u>80,887,321</u></b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(3,620,732)</b>	<b>6,744,857</b>
<b>Cash and cash equivalents at beginning of year/period</b>		<b>6,744,808</b>	<b>-</b>
<b>Effect of foreign exchange rate changes during the year/period</b>		<b>892,765</b>	<b>(49)</b>
<b>Cash and cash equivalents at end of year/period***</b>		<b><u>4,016,841</u></b>	<b><u>6,744,808</u></b>

\*Refer to Note 6 for non-cash transactions.

\*\* Refer to Note 10 for non-cash transactions.

\*\*\* Includes US\$2,900,000 (31 December 2017: US\$nil) restricted cash. Refer to note 5 for further details.

The accompanying notes on pages 16 to 43 form an integral part of the Financial Statements.



# FOMC II LP

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2018

#### 1. GENERAL INFORMATION

FOMC II LP (the “Partnership”) was registered in Guernsey on 24 February 2017 under The Limited Partnerships (Guernsey) Law, 1995, as amended. The Partnership 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 Partnership is governed by the Amended and Restated Limited Partnership Agreements dated 9 March 2017 and 12 March 2019 (the “LPA”) and was due to terminate on 12 June 2024. See note 12 for details of the extension to the term of the Partnership. The Partnership may be dissolved earlier, pursuant to conditions in the LPA.

The Partnership invests in US and European Collateralised Loan Obligations (“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 to achieve the Partnership's investment objective of generating attractive risk-adjusted returns, principally through income distributions.

The Partnership has an investment in FOIF LP (the “Master Fund”) and holds 62.82% of the commitment capital of the Master Fund. The Partnership also has an investment in Cycad Investments LP (“Cycad”) and holds 14.96% of the commitment capital of Cycad. The General Partner has determined that the Partnership has all the elements of control as prescribed by IFRS 10 in relation to the Master Fund, as the Partnership is the majority limited partner in the Master Fund, is exposed and has rights to the returns of the Master Fund and has the ability either directly or through the Investment Adviser to affect the amount of its returns from the Master Fund.

With effect from 24 February 2017, Fair Oaks Income Fund (GP) Limited (the “General Partner”) was appointed as the General Partner to the Partnership and with effect from 9 March 2017, Fair Oaks Capital Ltd (the “Investment Adviser”) was appointed as the Investment Adviser to the Partnership.

The Partnership commenced trading on 5 April 2017.

#### 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 Partnership'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 (“FVTPL”).

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 Partnership for the period to which it relates and does not omit any matter or development of significance.

The Partnership qualifies as an investment entity under the terms of IFRS 10 “Consolidated Financial Statements” and is therefore not permitted to prepare consolidated Financial Statements under IFRS.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**2. SIGNIFICANT ACCOUNTING POLICIES, continued**

**New Accounting Standards and interpretations effective and adopted**

- 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 Instruments: Recognition and Measurement' ("IAS 39");
- IFRS 15, "Revenue from Contracts with Customers" (effective for periods commencing on or after 1 January 2018);

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

The adoption of IFRS 9 has had no material impact on these Financial Statements, principally for the following reasons:

- the classification and measurement methodology for all of the Company's assets and liabilities has remained the same under IFRS 9 as under IAS 39;
- the Master Fund's investments are measured at fair value, as the Master Fund is an investment entity and the performance of its portfolio of CLO investments is assessed on a fair value basis, and so the changes in IFRS 9 relating to the assessment of credit losses for financial instruments held at amortised cost do not apply to these instruments;
- the Company does not apply hedge accounting, and is therefore unaffected by the hedge accounting-related changes introduced in IFRS 9.

The adoption of IFRS 15 has had no material impact on these Financial Statements as the Company has no income within the scope of IFRS 15.

**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 Company but have not been applied in these Financial Statements, were in issue but not yet effective:

Annual Improvements 2015-2017 Cycle project in December 2017. This projects have amended a number of existing standards and interpretations effective for accounting periods commencing on or after 1 January 2019.

The General Partner expects that the adoption of these amended standards in a future period will not have a material impact on the Financial Statements of the Master Fund.

**Investment Income**

Investment income comprises interest income received and receivable on the Partnership'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.

**Net (losses)/gains on Financial Assets at Fair Value through Profit or Loss**

Net (losses)/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 recognized in the Statement of Comprehensive Income.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**2. SIGNIFICANT ACCOUNTING POLICIES, continued**

**Net gains/(losses) on Derivatives at Fair Value through Profit or Loss and Foreign Exchange**

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

**Expenses**

Expenses of the Partnership 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, including restricted cash. 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 IFRS 9. The date of initial application of IFRS 9 is 1 January 2018. Accordingly, the Partnership has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

On initial recognition, the Partnership classifies financial assets as measured at amortised cost or at FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are SPPI.

All other financial assets of the Partnership are measured at FVTPL.

In making an assessment of the objective of the business model in which a financial asset is held, the Partnership considers all of the relevant information about how the business is managed.

The Partnership has determined that it has two business models.

- *Held-to-collect business model:* this includes cash and cash equivalents, prepayments and distributions receivable. These financial assets are held to collect contractual cash flow.
- *Other business model:* this includes investments in CLOs and derivatives. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent sales taking place.

The Investment entities exception to consolidation ("Investment entities exception") in IFRS 10 'Consolidated Financial Statements' ("IFRS 10") requires subsidiaries of an investment entity to be accounted for at fair value through profit or loss in accordance with IFRS 9. Subsidiaries of the Partnership are therefore accounted for at fair value through profit or loss.

***Classification of financial assets – Policy applicable before 1 January 2018***

The Partnership classified financial assets into the following categories.

***Financial assets at FVTPL:***

Investments in CLOs and derivatives.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**2. SIGNIFICANT ACCOUNTING POLICIES, continued**

**Financial Instruments, continued**

*Financial assets at amortised cost:*

*Loans and receivables:* cash and cash equivalents, prepayments and other receivables.

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.

A non-derivative financial asset with fixed or determinable payments could be classified as a loan and receivable unless it was quoted in an active market or was an asset for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

***Financial liabilities – Classification, subsequent measurement and gains and losses***

Financial liabilities are classified as measured at amortised cost or FVTPL.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

*Financial liabilities at FVTPL:*

*Held for trading:* derivative financial instruments.

*Financial liabilities at amortised cost:*

This includes trade and other payables.

***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.

***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/(losses) 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 Partnership 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.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**2. SIGNIFICANT ACCOUNTING POLICIES, continued**  
**Financial Assets and Liabilities, continued**

***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 IFRS 9. 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 IFRS 9.

In order for the Investment Entities exception to be relevant to the Partnership, 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 2018, the General Partner had determined that eight CLOs (31 December 2017: seven) on a look through basis were subsidiaries. Details on how that conclusion was reached are set out in Note 7 – 'Interests in Other Entities'.

Therefore, as a parent, the Partnership 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 Partnership prepares individual financial statements only, with its investments in the subsidiaries measured at fair value through profit or loss.

***Foreign Currency***

***Functional and presentation currency***

The Financial Statements of the Partnership are presented in the currency of the primary economic environment in which the Partnership operates (the "functional currency"). The General Partner has considered the primary economic currency of the Partnership and considered the currency in which the original finance was raised, distributions made, and ultimately what currency would be returned if the Partnership 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 Partnership. 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 Partnership are presented in US Dollar, which has been selected as the presentation currency of the Partnership. 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 reporting date when fair value was determined.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**2. SIGNIFICANT ACCOUNTING POLICIES, continued**

**Taxation**

The Partnership 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 Partnership 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 Partnership as at 31 December 2018 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 as the Partnership has adequate financial resources to meet its liabilities as they fall due.

**Investment in other entities**

At 31 December 2018, the General Partner was satisfied that the Partnership met the definition of an investment entity, and had also concluded that nine investments (31 December 2017: eight) on a look through basis met the definition of a subsidiary in accordance with IFRS 10, with the remaining CLOs on a look through basis in which the Partnership invests meeting the definition of structured entities in accordance with IFRS 12. These conclusions are further detailed in Note 7 – ‘Interest in Other Entities’.

**Estimates**

***Fair value***

The Partnership records its investments both in the Master fund and in Cycad at fair value, where the fair values are determined as the Partnership’s share of the Net Asset Values (“NAV”) of the investments. The Investment Adviser has reviewed the NAV of the investments and determined that no adjustments regarding liquidity discounts were required. The fair values of other financial assets at fair value through profit or loss 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. 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 Partnership’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 derivatives). 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 Partnership 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.



## **FOMC II LP**

### **NOTES TO THE FINANCIAL STATEMENTS, continued**

**For the year ended 31 December 2018**

#### **4. DISTRIBUTIONS**

Pursuant to clause 13 of the LPA, all income proceeds and capital proceeds of the Partnership (after payment of expenses and liabilities) are allocated to the Limited Partner in accordance with its respective interest 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% on the Limited Partners outstanding capital commitment, excluding capital and interest proceeds received from the Master Fund); and
- fourth, 85% to the Limited Partners and 15% to the Founder Partner.

Income proceeds (CLO investment income) received by the Partnership 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 received from CLO investments are distributed in accordance with the above as soon as practicable after the relevant amounts have been received by the Partnership. No capital proceeds were received from CLO investments during the year ended 31 December 2018 (31 December 2017: US\$nil).

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

During the year ended 31 December 2018, the Partnership declared income distributions totalling US\$50,828,148 (31 December 2017: US\$47,157,522) to the Limited Partner, of which US\$12,908,631 (31 December 2017: US\$24,830,482) remained outstanding as at 31 December 2018.

#### **5. FINANCIAL RISK MANAGEMENT**

The General Partner has overall responsibility for the establishment and oversight of the Partnership's risk management framework. The Partnership's risk management policies are established to identify and analyse the risks faced by the Partnership, 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 Partnership's activities. Below is a non-exhaustive summary of the risks that the Partnership is exposed to as a result of its use of financial assets:

##### **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 Partnership's income and/or the value of its holdings in financial assets.

The Partnership's exposure to market risk comes mainly from movements in the value of its investments. Changes in credit spreads may further affect the Partnership's net equity or net income directly through their impact on unrealised gains or losses on investments within the portfolio and therefore the Partnership's ability to make gains on such investments, or indirectly through their impact on the Partnership'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 Partnership 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 Partnership's market positions are monitored on a quarterly basis by the General Partner.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**5. FINANCIAL RISK MANAGEMENT, continued**

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 Partnership does not apply hedge accounting.

*Interest Rate Risk*

The Partnership is exposed to interest rate risk through investments held by the Master Fund and Cycad, on a look-through basis to the underlying assets in the CLOs.

The Partnership invests directly into CLOs and also indirectly through its investment in the Master Fund and Cycad. The Master Fund and Cycad invest in CLOs. The majority of the Partnership's financial assets comprise investments held indirectly through the Master Fund, which invests in income notes: Equity Subordinated and Mezzanine tranches of cash flow CLOs. The Partnership'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 2018, the interest rate profile of the portfolio held directly by the Partnership and on a look through basis to the underlying Limited Partnerships was as follows:

	<b>31 December 2018</b>			
	<b>Partnership</b>	<b>Master Fund</b>	<b>Cycad</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Investments with exposure to a floating interest rate	255,394,116	100,846,199	13,892,282	370,132,597
Financial assets at fair value through profit or loss	<b>255,394,116</b>	<b>100,846,199</b>	<b>13,892,282</b>	<b>370,132,597</b>

As at 31 December 2017, the interest rate profile of the portfolio held directly by the Partnership and on a look through basis to the underlying Limited Partnerships was as follows:

	<b>31 December 2017</b>			
	<b>Partnership</b>	<b>Master Fund</b>	<b>Cycad</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Investments with exposure to a floating interest rate	115,190,150	234,158,960	16,608,032	365,957,142
Financial assets at fair value through profit or loss	<b>115,190,150</b>	<b>234,158,960</b>	<b>16,608,032</b>	<b>365,957,142</b>

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.

<b>31 December 2018</b>		<b>31 December 2017</b>	
<b>Possible reasonable change in rate</b>	<b>Effect on net assets and profit or loss US\$</b>	<b>Possible reasonable change in rate</b>	<b>Effect on net assets and profit or loss US\$</b>
-1%	(1,623,577)	-1%	(4,238,806)
1%	1,644,438	1%	2,661,172

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**5. FINANCIAL RISK MANAGEMENT, continued**  
**Market Risk, continued**

*Currency risk*

Investments acquired are predominantly denominated in US Dollar. However, the Partnership 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 Partnership 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 Partnership.

The Partnership 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 Partnership considering the liquidity risk that is attached to any derivative contracts that could be used (e.g. margin calls on those contracts).

As at 31 December 2018, the total net foreign currency exposure on a look through basis was as follows:

	<b>31 December 2018</b>			
	<b>Partnership US\$</b>	<b>Master Fund* US\$</b>	<b>Cycad* US\$</b>	<b>Total US\$</b>
<b>EUR Exposure</b>				
Financial assets at fair value through profit or loss	28,668,405	2,460,817	-	31,129,222
Derivatives at fair value through profit or loss	(28,818,600)	(2,606,953)	-	(31,425,553)
Other payables	(87,496)	(46,116)	-	(133,612)
<b>Net EUR Exposure</b>	<b>(237,691)</b>	<b>(192,252)</b>	<b>-</b>	<b>(429,943)</b>
	<b>31 December 2018</b>			
	<b>Partnership US\$</b>	<b>Master Fund* US\$</b>	<b>Cycad* US\$</b>	<b>Total US\$</b>
<b>GBP Exposure</b>				
Other receivables	-	3,135	-	3,135
Other payables	(4,886)	-	(7,315)	(12,201)
<b>Net GBP Exposure</b>	<b>(4,886)</b>	<b>3,135</b>	<b>(7,315)</b>	<b>(9,066)</b>
<b>NET EXPOSURE</b>	<b>(242,577)</b>	<b>(189,117)</b>	<b>(7,315)</b>	<b>(439,009)</b>

*\*Based on the Partnership's proportionate percentage share exposure of the Master Fund at 62.82% and Cycad at 14.96%.*

	<b>31 December 2017</b>			
	<b>Partnership US\$</b>	<b>Master Fund* US\$</b>	<b>Cycad* US\$</b>	<b>Total US\$</b>
<b>EUR Exposure</b>				
Financial assets at fair value through profit or loss	-	3,081,172	-	3,081,172
Derivatives at fair value through profit or loss	-	(3,092,552)	-	(3,092,552)
Other payables	-	-	-	-
<b>Net EUR Exposure</b>	<b>-</b>	<b>(11,380)</b>	<b>-</b>	<b>(11,380)</b>

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**5. FINANCIAL RISK MANAGEMENT, continued**  
**Market Risk, continued**

	<b>31 December 2017</b>			
<b>GBP Exposure</b>	<b>Partnership US\$</b>	<b>Master Fund* US\$</b>	<b>Cycad* US\$</b>	<b>Total US\$</b>
Cash and cash equivalents	-	750	-	750
Other receivables	-	857	-	857
Other payables	(16,381)	(62,908)	(2,479)	(81,768)
<b>Net GBP Exposure</b>	<b>(16,381)</b>	<b>(61,301)</b>	<b>(2,479)</b>	<b>(80,161)</b>
<b>NET EXPOSURE</b>	<b>(16,381)</b>	<b>(72,681)</b>	<b>(2,479)</b>	<b>(91,541)</b>

\*Based on the Partnership's proportionate percentage share exposure of the Master Fund at 62.82% and Cycad at 14.96%.

As at 31 December 2018, the following forward foreign exchange contract was in place:

<b>Maturity Date</b>	<b>Contract amount</b>	<b>Buy</b>	<b>Sell</b>	<b>Unrealised gain US\$</b>
7 March 2019	EUR25,000,000	US\$28,644,300	US Dollar	Euro
				(174,300)

As at 31 December 2017, there were no commitments in place in respect of forward foreign exchange contracts.

	<b>Possible change in exchange rate</b>	<b>31 December 2018 net exposure US\$</b>	<b>31 December 2018 effect on net assets and profit or loss (if unhedged) US\$</b>
EUR/US Dollar	+/- 10%	(429,943)	-/+ 42,994
GBP/US Dollar	+/- 15%	(9,066)	-/+ 1,360

	<b>Possible change in exchange rate</b>	<b>31 December 2017 net exposure US\$</b>	<b>31 December 2017 effect on net assets and profit or loss (if unhedged) US\$</b>
EUR/US Dollar	+/- 15%	(11,380)	-/+ 1,707
GBP/US Dollar	+/- 10%	(80,161)	-/+ 8,016

The sensitivity rate of 10% (31 December 2017: 15%) is regarded as reasonable due to the recent volatility of US Dollar against Euro.

The sensitivity rate of 15% (31 December 2017: 10%) is regarded as reasonable due to the recent volatility of US Dollar against Sterling.

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Currency</b>	<b>%</b>	<b>%</b>
US Dollar	92.3	100.0
Euro	7.7	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**5. FINANCIAL RISK MANAGEMENT, continued**  
**Market Risk, continued**

*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 Partnership's investments increased or decreased by +/- 10% (31 December 2017: 1%) at the year end, the impact on the NAV would be +/- US\$37,013,260 (31 December 2017: US\$3,396,392). At 31 December 2018, the sensitivity rate of 10% (31 December 2017: 1%) is regarded as reasonable due to the actual market price volatility experienced on the Partnership's investments during the year.

**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 Partnership's prospectus, and by taking collateral.

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>US\$</b>	<b>US\$</b>
Cash and cash equivalents	4,016,841	6,744,808
Other receivables and prepayments	6,255,796	23,797,617
Financial assets at fair value through profit or loss	370,132,597	339,639,224
	<b>380,405,234</b>	<b>370,181,649</b>

The cash and substantially all of the assets of the Partnership are held by BNP Paribas Securities Services S.C.A., Guernsey Branch (the "Custodian") and forward foreign currency contracts are placed with The Royal Bank of Scotland International Limited ("RBSI"). Bankruptcy or insolvency of the Custodian and RBSI may cause the Partnership's rights with respect to securities held by the Custodian and RBSI 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 2018 was Aa3 as rated by Moody's (31 December 2017: Aa3) and A by Standard & Poor's (31 December 2017: A). The long-term rating of RBSI as at 31 December 2018 was Baa2 as rated by Moody's and BBB- by Standard & Poor's.

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 Partnership, 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 Partnership's exposure to the credit risk of all of the directly held underlying CLO investments and its investments into the Master Fund and Cycad based on the country of registration (not necessarily asset class exposure) is as follows:

	<b>31 December 2018</b>			
	<b>Partnership</b>	<b>Master Fund</b>	<b>Cycad</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
United States of America	226,725,711	-	13,892,282	240,617,993
Europe	28,668,405	-	-	28,668,405
Guernsey	-	100,846,199	-	100,846,199
<b>Total</b>	<b>255,394,116</b>	<b>100,846,199</b>	<b>13,892,282</b>	<b>370,132,597</b>

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**5. FINANCIAL RISK MANAGEMENT, continued**  
**Credit and Counterparty Risk, continued**

	<b>31 December 2017</b>			
	<b>Partnership</b>	<b>Master Fund</b>	<b>Cycad</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
United States of America	115,190,150	-	15,890,400	131,080,550
Guernsey	-	208,558,674	-	208,558,674
<b>Total</b>	<b>115,490,150</b>	<b>208,558,674</b>	<b>15,890,400</b>	<b>339,639,224</b>

The underlying CLO investments geographical breakdown is as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Country*</b>	<b>%</b>	<b>%</b>
United States of America	90.9	90.0
Canada	2.2	2.3
Luxembourg	1.7	2.0
Netherlands	1.7	0.9
United Kingdom	1.5	1.1
Other	2.0	3.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\*Shows the Partnership's exposure in the underlying CLO investments includes its exposure through its investments in the Master Fund and Cycad.

Source: CLO trustee reports. Based on the Partnership's exposure and weighted by CLO size and Partnership's equity ownership percentage.

The table below summarises the Partnership's portfolio concentrations on a look through basis:

	<b>Maximum portfolio holdings of a single asset % of total portfolio*</b>	<b>Average portfolio holdings % of total portfolio*</b>
31 December 2018	8.22%	3.33%
31 December 2017	7.89%	2.13%

\*Shows the Partnership's exposure in the underlying CLO investments includes its exposure through its investments in the Master Fund and Cycad.

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>By Asset Class</b>	<b>US\$</b>	<b>US\$</b>
Equity Subordinated CLO notes	250,257,485	115,190,150
Mezzanine CLO notes	5,136,631	-
Limited Partnerships	114,738,481	224,449,074
	<b>370,132,597</b>	<b>339,639,224</b>

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**5. FINANCIAL RISK MANAGEMENT, continued**

**Credit and Counterparty Risk, continued**

The underlying on a look through basis CLO investments rating breakdown is as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Rating*</b>	<b>%</b>	<b>%</b>
B	41.8	43.1
B+	19.9	22.0
B-	14.0	12.0
BB-	11.2	13.2
BB	6.6	4.3
BB+	2.9	2.0
CCC+	1.6	1.1
BBB-	0.6	0.5
CCC	0.3	0.2
CCC-	0.2	0.1
CC	0.1	0.0
D	0.0	0.2
NR	0.8	1.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\*Shows the Partnership's exposure in the underlying CLO investments includes its exposure through its investments in the Master Fund and Cycad.

Source: CLO trustee reports. Based on the Partnership's exposure and weighted by CLO size and Partnership's equity ownership percentage.

The Partnership'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.

**Liquidity Risk**

Liquidity risk is the risk that the Partnership 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 Partnership 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 Partnership's reputation.

The Partnership'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 Partnership'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\$2,900,000 (31 December 2017: US\$nil), of the Partnership's cash was held in a restricted account. RBSI holds this cash as collateral against potential losses on forward foreign exchange contracts.



**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**5. FINANCIAL RISK MANAGEMENT, continued**

**Liquidity Risk, continued**

<b>31 December 2018</b>	<b>Less than 3 months US\$</b>	<b>3 – 6 months US\$</b>	<b>1 – 2 years US\$</b>	<b>2 – 3 years US\$</b>	<b>3 – 4 years US\$</b>	<b>5 – 6 years US\$</b>	<b>Total US\$</b>
<b>Financial assets</b>							
Financial assets at fair value through profit or loss	-	28,668,405	100,846,199	4,752,000	65,536,700	170,329,293	370,132,597
Other receivables and prepayments	6,255,796	-	-	-	-	-	6,255,796
Cash and cash equivalents	4,016,841	-	-	-	-	-	4,016,841
<b>Total financial assets</b>	<b>10,272,637</b>	<b>28,668,405</b>	<b>100,846,199</b>	<b>4,752,000</b>	<b>65,536,700</b>	<b>170,329,293</b>	<b>380,405,234</b>
<b>Financial liabilities</b>							
Other payables	(229,202)	(87,496)	-	-	-	-	(316,698)
Derivatives at fair value through profit or loss	(174,300)	-	-	-	-	-	(174,300)
Distribution payable	(12,908,631)	-	-	-	-	-	(12,908,631)
<b>Total financial liabilities</b>	<b>(13,312,133)</b>	<b>(87,496)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(13,399,629)</b>
<b>Liquidity gap</b>	<b>(3,039,496)</b>	<b>28,580,909</b>	<b>100,846,199</b>	<b>4,752,000</b>	<b>65,536,700</b>	<b>170,329,293</b>	<b>367,005,605</b>
<b>Total cumulative liquidity gap</b>	<b>(3,039,496)</b>	<b>25,541,413</b>	<b>126,387,612</b>	<b>131,139,612</b>	<b>196,676,312</b>	<b>367,005,606</b>	<b>367,005,605</b>
<b>31 December 2017</b>	<b>Less than 3 months US\$</b>	<b>6 – 12 months US\$</b>	<b>1 – 3 years US\$</b>	<b>3 – 4 years US\$</b>	<b>4 – 5 years US\$</b>	<b>5 – 6 years US\$</b>	<b>Total US\$</b>
<b>Financial assets</b>							
Financial assets at fair value through profit or loss	-	-	-	208,558,674	90,190,150	40,890,400	339,639,224
Other receivables and prepayments	23,797,617	-	-	-	-	-	23,797,617
Cash and cash equivalents	6,744,808	-	-	-	-	-	6,744,808
<b>Total financial assets</b>	<b>30,542,425</b>	<b>-</b>	<b>-</b>	<b>208,558,674</b>	<b>90,190,150</b>	<b>40,890,400</b>	<b>370,181,649</b>
<b>Financial liabilities</b>							
Other payables	-	(187,085)	-	-	-	-	(187,085)
Carried interest payable	-	-	-	-	(404,214)	-	(404,214)
Distribution payable	(24,830,482)	-	-	-	-	-	(24,830,482)
<b>Total financial liabilities</b>	<b>(24,830,482)</b>	<b>(187,085)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(404,214)</b>	<b>(25,421,781)</b>
<b>Liquidity gap</b>	<b>5,711,943</b>	<b>(187,085)</b>	<b>-</b>	<b>208,558,674</b>	<b>90,190,150</b>	<b>40,486,186</b>	<b>344,759,868</b>
<b>Total cumulative liquidity gap</b>	<b>5,711,943</b>	<b>5,524,858</b>	<b>5,524,858</b>	<b>214,083,532</b>	<b>304,273,682</b>	<b>344,759,868</b>	<b>344,759,868</b>

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**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 Partnership'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 Partnership 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 Partnership'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 Partnership. The Partnership'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 Partnership.

**Concentration Risk**

The Partnership has diversified its exposure to industry sectors. At 31 December 2018, the top 10 are as follows:

	<b>31 December 2018</b>
<b>Industry*</b>	<b>%</b>
Business equipment and services	17.2
Health care	11.6
Telecommunications	6.2
Broadcast radio and television	5.9
Lodging and casinos	5.4
Financial intermediaries	5.0
Building and development	4.2
Chemical and plastics	4.0
Electrical equipment	3.8
Utilities	3.5
	<b>66.8</b>

\*Shows the Partnership's exposure in the underlying CLO investments includes its exposure through its investments in the Master Fund and Cycad.

Source: CLO trustee reports. Based on the Partnership's exposure and weighted by CLO size and Partnership's equity ownership percentage

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**5. FINANCIAL RISK MANAGEMENT, continued**

**Concentration Risk, continued**

The Partnership has diversified its exposure to industry sectors. At 31 December 2017, the top 10 are as follows:

	<b>31 December 2017</b>
<b>Industry*</b>	<b>%</b>
Business equipment and services	13.4
Health care	9.6
Telecommunications	5.9
Lodging and casinos	5.2
Electronics / electrical	4.9
Financial intermediaries	4.1
Retailers (except food and drug)	4.0
Chemical and plastics	3.9
Utilities	3.9
Broadcast radio and television	3.9
	<b>58.8</b>

\*Shows the Partnership's exposure in the underlying CLO investments includes its exposure through its investments in the Master Fund and Cycad.

Source: CLO trustee reports. Based on the Partnership's exposure and weighted by CLO size and Partnership'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:

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>US\$</b>	<b>US\$</b>
Cost at the start of the year/period	353,757,233	-
Purchases during the year/period	229,409,366	384,154,777*
Sales during the year/period	(61,126,531)	-
Realised gains on sales during the year/period	1,126,532	-
Capital distributions from Master Fund during the year/period	(96,753,930)	(29,999,547)
Capital distributions from Cycad during the year/period	(956,597)	(397,936)
Investment income	28,934,703	1,944,155
Coupon interest received	(20,791,096)	(1,944,216)
Amortised cost of investments at the end of the year/period	433,599,680	353,757,233
Net unrealised losses on investments at the end of the year/period	(63,467,083)	(14,118,009)
<b>Financial assets at fair value through profit or loss at the end of the year/period</b>	<b>370,132,597</b>	<b>339,639,224</b>
Realised gains on sales during the year/period	1,126,532	-
Movement in net unrealised losses on investments during the year/period	(49,349,074)	(14,118,009)
Income distributions from Master Fund during the year/period	22,254,970	44,804,908
Income distributions from Cycad during the year/period	1,241,569	1,490,112
<b>Net (losses)/gains on financial assets at fair value through profit or loss during the year/period</b>	<b>(24,726,003)</b>	<b>32,177,011</b>

\*Comprises US\$128,447,831 cash transactions and US\$255,706,946 of non-cash in specie transfer for the Partnership's 62.82% of commitment capital in the Master Fund. This investment was transferred in specie in exchange for commitment capital within this Partnership.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

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

The following table provides a reconciliation of the financial assets at fair value through profit or loss held directly by the Partnership and on a look through basis to the underlying Limited Partnerships:

	31 December 2018 US\$	31 December 2017 US\$
The Partnership's direct financial assets at fair value through profit or loss	255,394,116	115,190,150
Master Fund's financial assets at fair value through profit or loss	114,110,460	234,158,960
Cycad's financial assets at fair value through profit or loss	14,866,534	16,608,032
<b>Total Financial Assets at fair value through profit or loss on a look through basis</b>	<b>384,371,110</b>	<b>365,957,142</b>
Master Fund's other net liabilities	(13,264,260)	(25,600,286)
Cycad's other net liabilities	(974,253)	(717,632)
<b>The Partnership's Financial Assets at Fair Value through profit or loss</b>	<b>370,132,597</b>	<b>339,639,224</b>

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.

# FOMC II LP

## NOTES TO THE FINANCIAL STATEMENTS, continued

For the year ended 31 December 2018

### 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 Partnership'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 2018			
	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
Financial assets at fair value through profit or loss	-	5,136,632	364,995,965	370,132,597
Derivatives at fair value through profit or loss	-	(174,300)	-	(174,300)
<b>Total</b>	<b>-</b>	<b>4,962,332</b>	<b>364,995,965</b>	<b>369,958,297</b>

	31 December 2017			
	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
Financial assets at fair value through profit or loss	-	-	339,639,224	339,639,224
<b>Total</b>	<b>-</b>	<b>-</b>	<b>339,639,224</b>	<b>339,639,224</b>

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

	31 December 2018 US\$	31 December 2017 US\$
Opening Balance	339,639,224	-
Purchases during the year/period	223,897,348	384,154,777
Sales during the year/period	(61,126,531)	-
Realised gains on sales during the year/period	1,126,532	-
Capital distributions from the Master Fund during the year/period	(96,753,930)	(29,999,547)
Capital distributions from Cycad during the year/period	(956,597)	(397,936)
Investment income	28,453,614	1,944,155
Coupon interest received	(20,791,096)	(1,944,216)
Net unrealised losses on financial assets held at fair value through profit or loss	(48,492,599)	(14,118,009)
Closing Balance	<b>364,995,965</b>	<b>339,639,224</b>
Unrealised losses on financial assets held at fair value through profit or loss at the end of the year/period	(62,610,608)	(14,118,009)

#### Transfers between Level 1, 2 and 3

There have been no transfers between levels during the year ended 31 December 2018 (31 December 2017: Nil). Transfers between levels of the fair value hierarchy are recognised as at the end of the reporting period during which the change has occurred.

# FOMC II LP

## NOTES TO THE FINANCIAL STATEMENTS, continued

For the year ended 31 December 2018

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

The following table summarises the valuation methodologies used for the Company's investments in Limited Partnerships categorised in Level 3 as at 31 December 2018:

Security	Fair Value US\$	Valuation methodology	Unobservable inputs	Ranges
Master Fund	100,846,199	NAV	Zero % discount	N/A
Cycad	13,892,282	NAV	Zero % discount	N/A
	<u>114,738,481</u>			

The following table summarises the valuation methodologies used for the Company's investments in Limited Partnerships categorised in Level 3 as at 31 December 2017:

Security	Fair Value US\$	Valuation methodology	Unobservable inputs	Ranges
Master Fund	208,558,674	NAV	Zero % discount	N/A
Cycad	15,890,400	NAV	Zero % discount	N/A
	<u>224,449,074</u>			

The Partnership 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 Partnership's investments categorised in Level 3 as at 31 December 2018:

Asset Class	Fair Value US\$	Unobservable inputs	Ranges	Average	Sensitivity to changes in significant unobservable inputs
<u>Income Note CLOs</u>					
United States of America	221,589,079	Prices provided by a third party agent	US\$0.6900 – US\$0.8800	US\$0.7874	10% increase/decrease will have a fair value impact of +/- US\$22,158,908
Europe	28,668,405	Prices provided by a third party agent	€1.0000	€1.0000	10% increase/decrease will have a fair value impact of +/- US\$2,866,841
<u>Limited Partnerships</u>					
Master Fund	100,846,199	Zero % discount	N/A	N/A	10% increase/decrease will have a fair value impact of +/- US\$10,084,620
Cycad	13,892,282	Zero % discount	N/A	N/A	10% increase/decrease will have a fair value impact of +/- US\$1,389,228
	<u>364,995,965</u>				

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

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

The following table summarises, in the General Partner's opinion, the valuation methodologies used by the independent third party to value the Partnership's investments categorised in Level 3 as at 31 December 2017:

<b>Asset Class</b>	<b>Fair Value US\$</b>	<b>Unobservable inputs</b>	<b>Ranges</b>	<b>Average</b>	<b>Sensitivity to changes in significant unobservable inputs</b>
<u>Income Note CLOs</u>					
United States of America	115,190,150	Prices provided by a third party agent	US\$0.8600 – US\$0.9700	US\$0.9322	1% increase/decrease will have a fair value impact of +/- US\$1,151,902
<u>Limited Partnerships</u>					
Master Fund	208,558,674	Zero % discount	N/A	N/A	1% increase/decrease will have a fair value impact of +/- US\$2,085,587
Cycad	<u>15,890,400</u> <u>339,639,224</u>	Zero % discount	N/A	N/A	1% increase/decrease will have a fair value impact of +/- US\$158,904

**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 directly and indirectly on a look through basis, 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 2018, the Partnership had nine (31 December 2017: eight) subsidiary on a look through basis 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.



**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**7. INTERESTS IN OTHER ENTITIES, continued**

**Interest in unconsolidated structured entities, continued**

In the case of AIMCO CLO Series 2015-A Limited, Arrowpoint CLO 2014-3 Limited, Allegro CLO II Limited, TICP CLO IV Limited, Neuberger Berman CLO XIX Ltd, Neuberger Berman CLO XX Ltd, Shackleton 2015-VIII CLO Limited and Fair Oaks Loan Funding I (the "entities") (31 December 2017: also includes Covenant Credit Partners CLO II Limited and Ares XXXV CLO Limited), 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 Partnership 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 Partnership 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 Partnership to control the contractual payments of returns, and it is therefore an indication of linkage between power and variability in returns.

The Partnership is also considered to have contingent power over the eight entities, due to the fact that it could remove the collateral managers of AIMCO CLO Series 2015-A Limited, Arrowpoint CLO 2014-3 Limited, Allegro CLO II Limited, TICP CLO IV Limited, Neuberger Berman CLO XIX Ltd, Neuberger Berman CLO XX Ltd, Shackleton 2015-VIII CLO Limited and Fair Oaks Loan Funding I's (31 December 2017: also includes Covenant Credit Partners CLO II Limited and Ares XXXV CLO Limited) in certain contingent circumstances as the Partnership is the majority shareholder in the most sub-ordinated tranche of the CLO. It can therefore be considered that the Partnership has contingent power which may impact the variability of returns in the future.

The General Partner has determined that the Partnership has all the elements of control as prescribed by IFRS 10 in relation to the Master Fund, as the Partnership is the majority limited partner in the Master Fund, is exposed and has rights to the returns of the Master Fund and has the ability either directly or through the Investment Adviser to affect the amount of its returns from the Master Fund.

*Investment entity status*

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

## FOMC II LP

### NOTES TO THE FINANCIAL STATEMENTS, continued For the year ended 31 December 2018

#### 7. INTERESTS IN OTHER ENTITIES, continued

##### Interest in unconsolidated structured entities, continued

Below is a summary of the Partnership's holdings in non-subsiary unconsolidated structured entities ("SEs") on a look through basis, the Master Fund and Cycad, as at 31 December 2018:

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 FVTPL	Maximum exposure to losses US\$	Income US\$	Type of Income	Other
<u>Mezzanine Note CLOs</u>											
<i>North America</i>											
		Broadly Syndicated sub-Investment									
	Financial assets at fair value through profit or loss	Grade Secured Loans - USD	2	5,737,500 – 8,166,600	6,952,050	12,463,104	3.24%	12,463,104	1,581,256	Interest income	Non-recourse*
<b>Total Mezzanine Note CLOs</b>	<b>Financial assets at fair value through profit or loss</b>		<b>2</b>	<b>5,737,500 – 8,166,600</b>	<b>6,952,050</b>	<b>12,463,104</b>	<b>3.24%</b>	<b>12,463,104</b>	<b>1,581,256</b>		<b>Non-recourse*</b>
<u>Income Note CLOs</u>											
<i>North America</i>											
		Broadly Syndicated sub-Investment									
	Financial assets at fair value through profit or loss	Grade Secured Loans - USD	15	6,167,914 – 39,875,000	22,587,841	252,750,513	65.76%	252,750,513	34,816,282	Residual interest income	Non-recourse*
<i>Europe</i>											
		Broadly Syndicated sub-Investment									
	Financial assets at fair value through profit or loss	Grade Secured Loans - EUR	1	4,394,316	4,394,316	2,460,817	0.64%	2,460,817	203,350	Residual interest income	Non-recourse*
<b>Total Income Note CLOs</b>	<b>Financial assets at fair value through profit or loss</b>		<b>16</b>	<b>4,394,316 – 39,875,000</b>	<b>26,982,157</b>	<b>255,211,330</b>	<b>66.40%</b>	<b>255,211,330</b>	<b>35,019,632</b>		<b>Non-recourse*</b>
<b>Total</b>			<b>18</b>			<b>267,674,433**</b>	<b>69.64%</b>	<b>267,674,433</b>	<b>36,600,887</b>		

The Partnership has a percentage range of between 0.99% and 9.59% notional holding out of the entire outstanding notional balances of the non-subsiary unconsolidated structured entities as at 31 December 2018.

During the period ended 31 December 2018, the Partnership did not provide financial support to the non-subsiary 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 Partnership's maximum loss is capped at the current carrying value.

\*\* The Partnership's total fair value holding in non-subsiary unconsolidated structured entities (above), plus the total fair value holding of its unconsolidated structured entities subsidiaries on page 39 agrees to the financial assets at fair value through profit or loss on a look through basis on page 32, where a reconciliation to the financial assets at fair value through profit or loss in the Statement of Financial Position is shown.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**7. INTERESTS IN OTHER ENTITIES, continued**

**Interest in unconsolidated structured entities, continued**

Below is a summary of the Partnership's holdings in non-subsidiary unconsolidated structured entities on a look through basis, the Master Fund and Cycad, as at 31 December 2017:

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 FVTPL	Maximum exposure to losses US\$	Income US\$	Type of Income	Other
<u>Mezzanine Note CLOs</u>											
<i>North America</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub- Investment Grade Secured Loans - USD	21	1,256,400 – 8,166,600	4,112,272	85,078,449	23.25%	85,078,449	10,886,634	Interest income	Non-recourse*
<b>Total Mezzanine Note CLOs</b>	<b>Financial assets at fair value through profit or loss</b>		<b>21</b>	<b>1,256,400 – 8,166,600</b>	<b>4,112,272</b>	<b>85,078,449</b>	<b>23.25%</b>	<b>85,078,449</b>	<b>10,886,634</b>		<b>Non-recourse*</b>
<u>Income Note CLOs</u>											
<i>North America</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub- Investment Grade Secured Loans - USD	12	6,167,914 – 30,050,000	17,844,512	178,601,376	48.80%	178,601,376	17,104,418	Residual Interest income	Non-recourse*
<i>Europe</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub- Investment Grade Secured Loans - EUR	1	3,832,020	3,832,020	3,081,172	0.84%	3,081,172	603,104	Residual interest income	Non-recourse*
<b>Total Income Note CLOs</b>	<b>Financial assets at fair value through profit or loss</b>		<b>13</b>	<b>3,832,020 – 30,050,000</b>	<b>21,676,532</b>	<b>181,682,548</b>	<b>49.64%</b>	<b>181,682,548</b>	<b>17,707,522</b>		<b>Non-recourse*</b>
<b>Total</b>			<b>34</b>			<b>266,760,997**</b>	<b>72.89%</b>	<b>266,760,997</b>	<b>28,594,156</b>		

The Partnership has a percentage range of between 0.27% and 6.60% notional holding out of the entire outstanding notional balances of the non-subsidiary unconsolidated structured entities as at 31 December 2017.

During the period ended 31 December 2017, the Partnership 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 Partnership's maximum loss is capped at the current carrying value.

\*\* The Partnership'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 40 agrees to the financial assets at fair value through profit or loss on a look through basis on page 32, where a reconciliation to the financial assets at fair value through profit or loss in the Statement of Financial Position is shown.

# FOMC II LP

## NOTES TO THE FINANCIAL STATEMENTS, continued For the year ended 31 December 2018

### 7. INTERESTS IN OTHER ENTITIES, continued

#### Interest in unconsolidated structured entities, continued

Summary of the Partnership's holdings in unconsolidated subsidiaries on a look through basis, the Master Fund and Cycad, as at 31 December 2018:

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 FVTPL	Maximum exposure to losses US\$	Income US\$	Type of Income	Other
<u>Mezzanine Note CLOs</u>											
<i>North America</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub- Investment Grade Secured Loans - USD	1	2,701,260	2,701,260	2,582,254	0.67%	2,582,254	582,272	Interest income	Non-recourse*
<b>Total Mezzanine Note CLOs</b>	<b>Financial assets at fair value through profit or loss</b>		<b>1</b>	<b>2,701,260</b>	<b>2,701,260</b>	<b>2,582,254</b>	<b>0.67%</b>	<b>2,582,254</b>	<b>582,272</b>		<b>Non-recourse*</b>
<u>Income Note CLOs</u>											
<i>North America</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub- Investment Grade Secured Loans - USD	8	12,878,100 – 23,871,600	17,256,535	85,446,018	22.23%	85,446,018	12,105,932	Residual interest income	Non recourse*
<i>Europe</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub- Investment Grade Secured Loans - EUR	1	28,668,405	28,668,405	28,668,405	7.46%	28,668,405	-	Residual interest income	Non recourse*
<b>Total Income Note CLOs</b>	<b>Financial assets at fair value through profit or loss</b>		<b>9</b>	<b>2,701,260 – 28,668,405</b>	<b>45,924,940</b>	<b>114,114,423</b>	<b>29.69%</b>	<b>114,114,423</b>	<b>12,105,932</b>		<b>Non recourse*</b>
<b>Total</b>			<b>10</b>			<b>116,696,677**</b>	<b>30.36%</b>	<b>116,696,677</b>	<b>12,688,204</b>		

The Partnership has a percentage range of between 0.65% and 4.70% notional holding out of the entire outstanding notional balances of the subsidiaries, AIMCO CLO Series 2015-A Limited, Arrowpoint CLO 2014-3 Limited, Allegro CLO II Limited, TICP CLO IV Limited, Neuberger Berman CLO XIX Ltd, Neuberger Berman CLO XX Ltd, Shackleton 2015-VIII CLO Limited and Fair Oaks Loan Funding I as at 31 December 2018.

The Master Fund sold two subsidiary investments, Covenant Credit Partners CLO II Limited and Ares XXXV CLO Limited, during the year ended 31 December 2018. There were no other purchases or sales of investments in subsidiaries during the year.

For the financial period ended 31 December 2018, the Partnership 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 Partnership's maximum loss is capped at the current carrying value.

\*\* The Partnership'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 37 agrees to the financial assets at fair value through profit or loss on a look through basis on page 32, where a reconciliation to the financial assets at fair value through profit or loss in the Statement of Financial Position is shown.

## FOMC II LP ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**7. INTERESTS IN OTHER ENTITIES, continued**

**Interest in unconsolidated structured entities, continued**

Summary of the Partnership's holdings in unconsolidated subsidiaries on a look through basis, the Master Fund and Cycad, as at 31 December 2017:

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 FVTPL	Maximum exposure to losses US\$	Income US\$	Type of Income	Other
<u>Mezzanine Note CLOs</u>											
<i>North America</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub- Investment Grade Secured Loans - USD	4	2,701,260 – 6,910,200	4,852,845	19,557,925	5.34%	19,557,925	2,155,986	Interest income	Non-recourse*
<b>Total Mezzanine Note CLOs</b>	<b>Financial assets at fair value through profit or loss</b>		<b>4</b>	<b>2,701,260 – 6,910,200</b>	<b>4,852,845</b>	<b>19,557,925</b>	<b>5.34%</b>	<b>19,557,925</b>	<b>2,155,986</b>		<b>Non-recourse*</b>
<u>Income Note CLOs</u>											
<i>North America</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub- Investment Grade Secured Loans - USD	9	1,601,294 – 19,073,723	14,149,264	79,638,220	21.76%	79,638,220	16,834,799	Residual interest income	Non recourse*
<b>Total Income Note CLOs</b>	<b>Financial assets at fair value through profit or loss</b>		<b>9</b>	<b>1,601,294 – 19,073,723</b>	<b>14,149,264</b>	<b>79,638,220</b>	<b>21.76%</b>	<b>79,638,220</b>	<b>16,834,799</b>		<b>Non recourse*</b>
<b>Total</b>			<b>13</b>			<b>99,196,145**</b>	<b>27.10%</b>	<b>99,196,145</b>	<b>18,990,785</b>		

The Partnership has a percentage range of between 0.65% and 4.65% 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 IV Limited, TICP CLO IV Limited, Neuberger Berman CLO XIX Ltd, Ares XXXV CLO Limited and Shackleton 2015-VIII CLO Limited as at 31 December 2017.

There were no purchases or sales of investments in subsidiaries during the period ended 31 December 2017.

For the financial period ended 31 December 2017, the Partnership 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 Partnership's maximum loss is capped at the current carrying value.

\*\* The Partnership'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 38 agrees to the financial assets at fair value through profit or loss on a look through basis on page 32, where a reconciliation to the financial assets at fair value through profit or loss in the Statement of Financial Position is shown.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**8. RELATED PARTIES AND OTHER MATERIAL CONTRACTS**

**Transactions with key management personnel**

*General Partner*

The General Partner of the Partnership is entitled to receive a Priority Profit Share from the Partnership 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 period amounted to US\$2,113,987 (31 December 2017: US\$539,053) of which US\$204,221 (31 December 2017: US\$151,506) was included in other payables at 31 December 2018. During the period, the Partnership paid expenses of US\$68,449 (31 December 2017: US\$21,673) on behalf 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\$150 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 Partnership NAV.

At 31 December 2018, one Limited Partner had committed capital of over US\$150 million and received a rebate of US\$1,049,960 (31 December 2017: US\$269,934) of its Priority Profit Share.

The Partnership 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 Partnership 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 2018, US\$nil (31 December 2017: US\$404,214) carried interest had been accrued for the benefit of the Founder Partner.

**Other Material Contracts**

*Administrator*

With effect from 9 March 2017, 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 Partnership per annum, subject to a minimum annual fee of US\$66,235 (31 December 2017: US\$65,000), payable quarterly in arrears for Administration and Accounting services. The overall charge for the above-mentioned fees for the Partnership and the amounts due are disclosed below for information purposes.

*Custodian*

With effect from 9 March 2017, BNP Paribas Securities Services S.C.A., Guernsey Branch (the "Custodian") was appointed as the custodian of the Partnership.

The Custodian is entitled to receive aggregate fees of up to 0.03% per annum of the NAV of the Partnership for the provision of trustee and custodial services to the Partnership, subject to a minimum annual fee of US\$30,000 (31 December 2017: US\$30,000).

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>US\$</b>	<b>US\$</b>
<b>CHARGE FOR THE YEAR/PERIOD</b>		
Priority profit share	2,113,987	539,053
Carried interest	(404,214)	404,214
Administration fees	109,450	21,422
Custodian fees	49,570	16,172
General Partner expenses	68,449	21,673
<b>OUTSTANDING FEES</b>		
Priority profit share	204,221	151,506
Carried interest	-	404,214
Administration fees	6,857	4,545
Custodian fees	12,671	14,974
General Partner expenses	5,453	1,058

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**9. OTHER RECEIVABLES AND PREPAYMENTS**

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>US\$</b>	<b>US\$</b>
Income distribution receivable from Master Fund	5,234,652	23,053,339
Income distribution receivable from Cycad	1,019,450	742,248
Prepaid annual fees	1,344	-
Accrued income receivable	-	1,680
Founder Partner committed capital receivable	350	350
	<b>6,255,796</b>	<b>23,797,617</b>

**10. 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% 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 Limited Partner but not yet distributed to it.

<b>31 December 2018:</b>	<b>Contributed Capital US\$</b>	<b>Loan Capital* US\$</b>	<b>Total US\$</b>
Opening Balance	3,589	358,917,368	358,920,957
Net contributions during the year	702	70,199,298	70,200,000
Closing balance	<b>4,291</b>	<b>429,116,666</b>	<b>429,120,957</b>

<b>31 December 2017:</b>	<b>Contributed Capital US\$</b>	<b>Loan Capital* US\$</b>	<b>Total US\$</b>
Opening Balance	-	-	-
Net contributions during the period	3,589	358,917,368	358,920,957
Closing balance	<b>3,589</b>	<b>358,917,368</b>	<b>358,920,957</b>

\*Comprises US\$103,214,361 cash transactions and US\$255,706,946 of non-cash in specie capital contribution in exchange for the Partnership's 62.82% of commitment capital in the Master Fund.

As at 31 December 2018, there was US\$4,875,795 of undrawn commitments (31 December 2017: US\$48,500,000). 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\$350 of capital to the Partnership, of which US\$350 remained outstanding at 31 December 2018 (31 December 2017: US\$350 outstanding). On the final closing date (12 June 2017) 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 Partnership at the final closing date.

**11. TRADE AND OTHER PAYABLES**

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>US\$</b>	<b>US\$</b>
Priority profit share payable (Note 8)	204,221	151,506
Administration fees payable (Note 8)	6,857	4,545
Audit fees payable	87,496	15,002
Custodian fee payable (Note 8)	12,671	14,974
General Partner expenses payable	5,453	1,058
	<b>316,698</b>	<b>187,085</b>



**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2018**

**12. SUBSEQUENT EVENTS**

On 5 February 2019, in accordance with clause 2.8 of the LPA, the General Partner approved an extension to the life of the Master Fund by one additional year. Following this extension, the Master Fund is now due to terminate on 27 May 2020.

On 12 March 2019, the General Partner and the Limited Partners approved a second Amended and Restated Limited Partnership Agreement (the “second LPA”). The salient amendments to the second LPA were:

- (a) extend the term of the Partnership beyond five years following the end of the Commitment Period to the extent it continues to hold a position in a Fair Oaks CLO to which it has acted as originator for risk retention purposes. This was to ensure that the Partnership can remain a risk retention holder for the life of that Fair Oaks CLO;
- (b) permit the Partnership to continue to invest in corporate loans following the end of its commitment period. The rationale was for risk retention purposes so as to enable the Partnership to be able to continue to season loans for onwards sale to a Fair Oaks CLO; and
- (c) carry out tidy up changes to the definition of “Preferred Return Threshold” to exclude, for the purposes of the IRR threshold calculation, that portion of Fair Oaks Income Limited’s commitment that comprises the in specie contribution of FOIF LP Interests made in April 2017.

On 1 April 2019, the Partnership increased its investment in the Master Fund to 66.20% of the commitment capital of the Master Fund.

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

**FOMC II LP**  
**PORTFOLIO STATEMENT (unaudited)**  
**As at 31 December 2018**

	<b>Market value 2018 US\$</b>	<b>Percentage of NAV 2018 %</b>
<b>Euro</b>		
Fair Oaks Loan Funding I*	28,668,405	7.81
<b>US Dollar</b>		
FOIF LP*	100,846,199	27.48
ALLEG 2017-2X SUB	31,501,250	8.58
POST 2018-1X SUB	30,640,350	8.35
SHACK 2018-12X SUB	24,900,000	6.78
AWPT 2017-6X SUB	23,739,500	6.47
WELF 2018-1X SUB	23,677,500	6.45
MARNR 2017-4X SUB	23,112,000	6.30
HLM 13X-18 SUB	21,341,280	5.81
ARES 2015-35RX SUB	19,240,000	5.24
AIMCO 2017-AX SUB	18,685,200	5.09
Cycad Investments LP	13,892,282	3.79
HLM 13X-18 F	5,136,631	1.40
AIMCO 2015-AA SUB	4,752,000	1.29
	<b>370,132,597</b>	<b>100.84</b>

\* Subsidiary undertaking as defined under IFRS 10.

## **FOMC II 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)

#### **Registered Office and Business Address**

Sarnia House  
Le Truchot  
St Peter Port  
Guernsey GY1 1GR

#### **Administrator and Secretary**

Praxis Fund Services Limited  
Sarnia House  
Le Truchot  
St Peter Port  
Guernsey GY1 1GR

#### **Investment Adviser**

Fair Oaks Capital Ltd  
1 Albermarle Street  
London W1S 4HA

#### **General Partner**

Fair Oaks Income Fund (GP) Limited  
Sarnia House  
Le Truchot  
St Peter Port  
Guernsey GY1 1GR

#### **Legal Advisers in Guernsey**

Carey Olsen (Guernsey) LLP  
Carey House  
Les Banques  
St Peter Port  
Guernsey GY1 4BZ

#### **Legal Advisers in United Kingdom**

Dechert LLP  
160 Queen Victoria Street  
London EC4V 4QQ

#### **Custodian and Principal Bankers**

BNP Paribas Securities Services S.C.A.  
BNP Paribas House  
St Julian's Avenue  
St Peter Port  
Guernsey GY1 1WA

#### **Registrar**

Link Market Services (Guernsey) Limited  
Mont Crevelt House  
Bulwer Avenue  
St Sampson  
Guernsey GY2 4LH

#### **Independent Auditor**

KPMG Channel Islands Limited  
Gategny Court  
Gategny Esplanade  
St Peter Port  
Guernsey GY1 1WR

### **APPENDIX 3**

#### **ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS RELATING TO MASTER FUND II FOR THE PERIOD ENDED 31 DECEMBER 2019**

**FOMC II LP**

**ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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## FOMC II LP INVESTMENT ADVISER'S REPORT

### Portfolio Review

As at 31 December 2019, FOMC II LP (the "Master Fund II" or "Partnership") held nineteen CLO equity positions<sup>1</sup> and three B rated CLO mezzanine investments offering exposure to 1,126 loan issuers<sup>2</sup> and thirteen CLO managers. Control CLO equity positions<sup>1</sup> represented 93.9% of the portfolio's market value<sup>3</sup>.

Figure 1.1 – CLO manager diversification of Master Fund II<sup>4</sup>

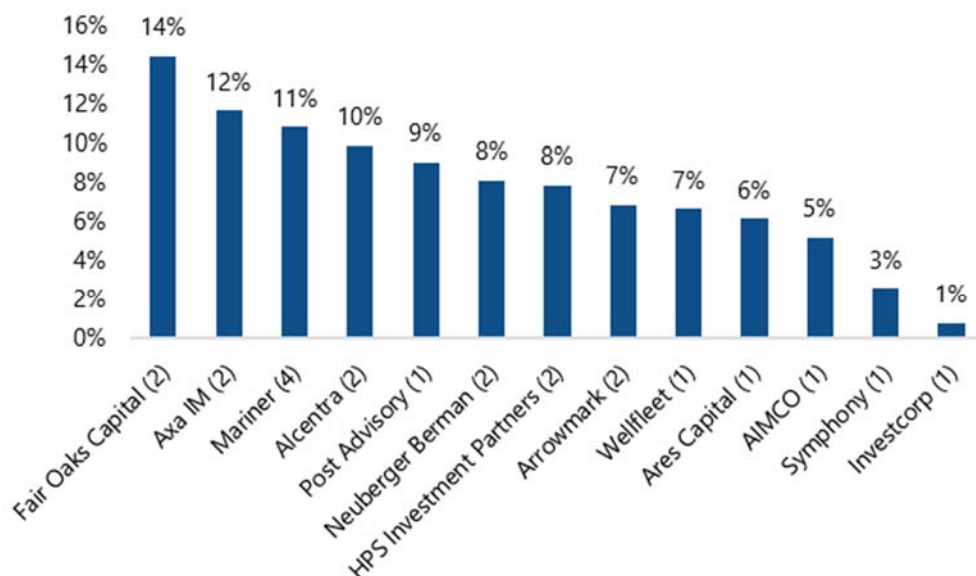
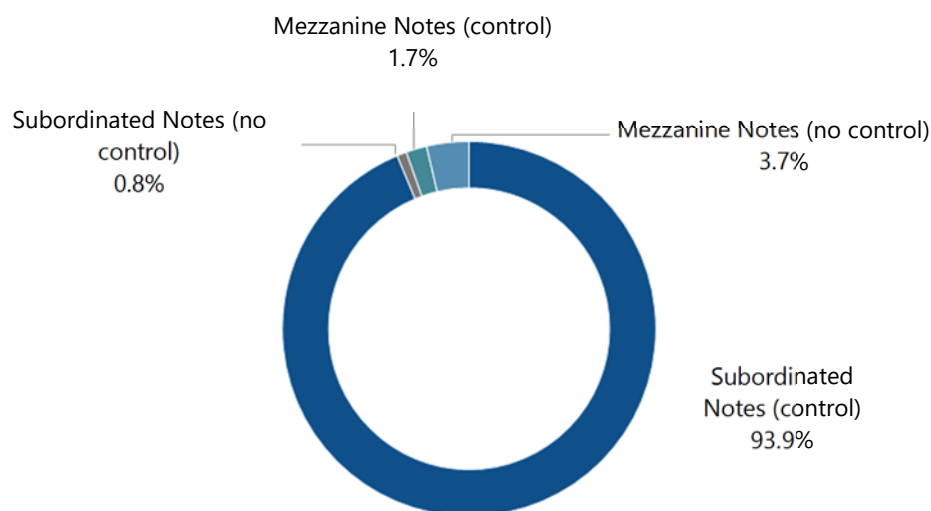


Figure 1.2 – Portfolio composition of Master Fund II<sup>5</sup>



<sup>1</sup> Total number of CLO equity positions includes one investment in subordinated notes of a CLO warehouse managed by Fair Oaks Capital.

<sup>2</sup> Based on the underlying loans in CLOs in which Master Fund II holds CLO equity. This includes the CLO equity positions in FOIF LP and Cycad Investments LP of which Master Fund II holds a percentage ownership. Data as at 31 December 2019.

<sup>3</sup> Percentage by market value of control CLO equity positions. Data as at 31 December 2019.

<sup>4</sup> Based on market value of the CLO investments, as at 31 December 2019. Analysis excludes any holdings in sub-fee notes. Percentages may not add up to 100% because of rounding errors. The number of investments is shown in parentheses after each manager name.

<sup>5</sup> Breakdown by market value of the CLO investments held by Fund II which includes its share in the Master Fund ("FOIF LP") and Cycad Investments LP. Percentages may not add up to 100% because of rounding errors. Data as at 31 December 2019.

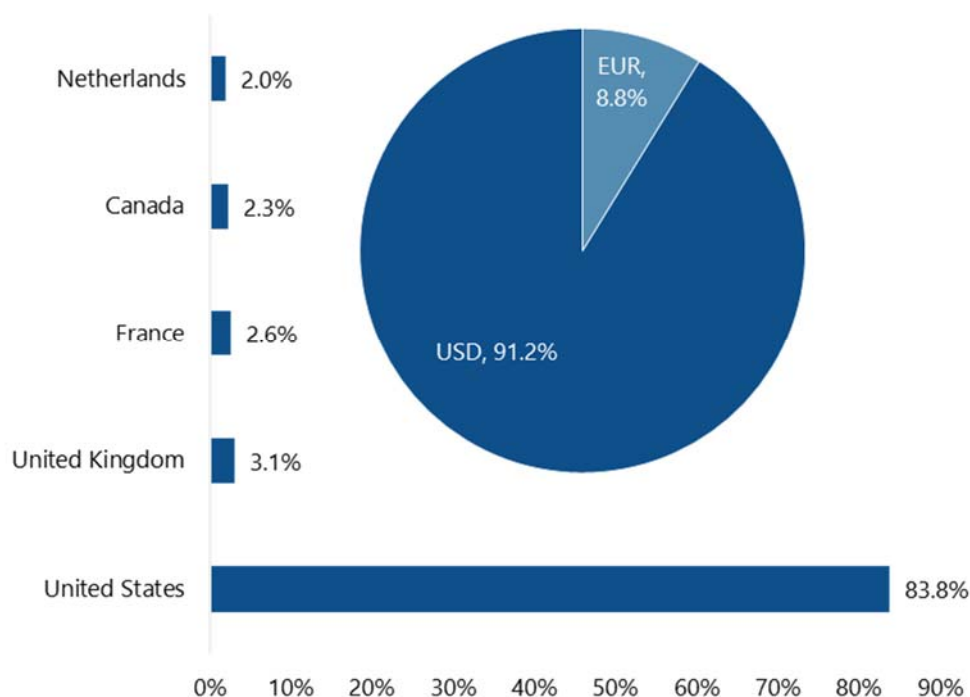


## FOMC II LP

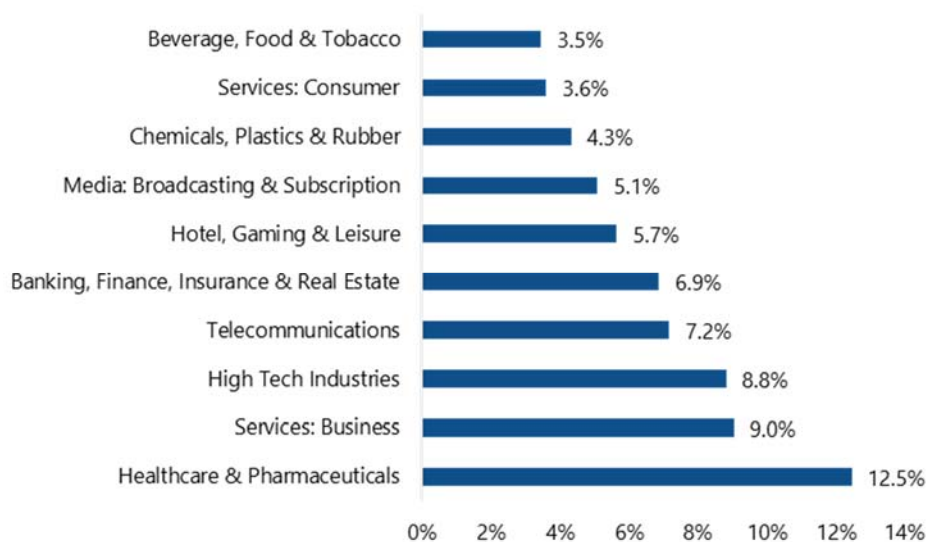
### INVESTMENT ADVISER'S REPORT, continued

Figure 1.2 – Portfolio composition of Master Fund II, continued

Geographical (top five) and currency breakdown<sup>6</sup>



Industry diversification by Moody's (top 10)<sup>5</sup>



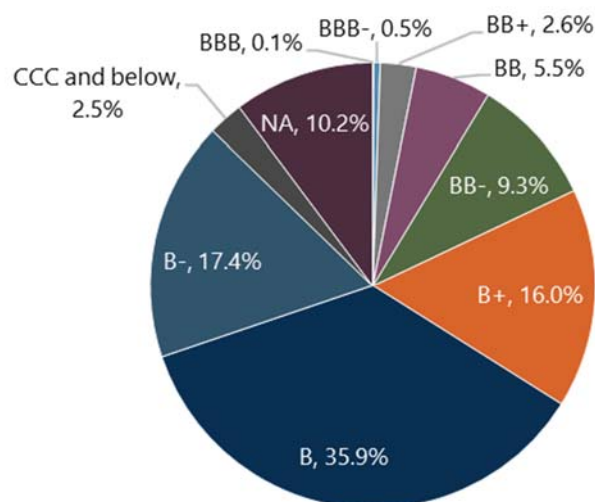
<sup>6</sup> Based on loan par value weighted by Master Fund II's proportional ownership of CLO Income Notes. Source: Intex.

## FOMC II LP

### INVESTMENT ADVISER'S REPORT, continued

Figure 1.2- Portfolio composition of Master Fund II, continued

Rating breakdown<sup>7,8</sup>



The Master Fund sold five US CLO equity investment in 2019 while Master Fund II purchased one US CLO equity investment in the secondary market and one European CLO equity investment in the primary market. Because the return on primary US CLO equity opportunities was below the Fund's target return in 2019, cash was retained for opportunistic investments, particularly in CLO mezzanine, and the year ended with a higher than usual cash balance.

Table 1.3 – CLO purchases and sales in 2019 by the Master Funds

Trade type	Transaction date	Nominal (US\$)	Deal name	CLO manager
Sale	April 2019	31,000,000	AMMC CLO 15 Limited	American Money Management Company (AMMC)
Sale	August 2019	27,000,000	Arrowpoint CLO 2014-3	Arrowmark
Sale	September 2019	19,350,000	Arrowpoint CLO 2015-4	Arrowmark
Sale	September 2019	21,500,000	TICP CLO IV	TPG Institutional Credit Partners (TICP)
Sale	October 2019	25,000,000	AIMCO CLO Series 2015-A	Allstate Investment Management Co.
Purchase	May 2019	3,787,500	Neuberger Berman CLO XIX	Neuberger Berman Investment Advisers
Purchase	June 2019	28,000,000	Fair Oaks Loan Funding I	Fair Oaks Capital Limited

Master Fund II's CLO "arbitrage" improved slightly during the year, from Libor+1.69% in December 2018 to Libor+1.73% (Figure 1.4). The portfolio's loan spreads widened from Libor+3.36% in Dec-18 to Libor+3.39% in Dec-19 while its CLO liabilities remained fairly flat<sup>9</sup>.

<sup>7</sup> Based on loan par value weighted by Master Fund II's proportional ownership of CLO Income Notes. Source: Intex.

<sup>8</sup> Based on S&P company ratings. Due to rounding errors, the percentages may not sum to 100%.

<sup>9</sup> Source: Intex. The loan spread is based on loan par value weighted by Master Fund II's proportional ownership of CLO income notes. The cost of funding of the CLO liabilities is based on CLO liability spreads weighted by Master Fund II's proportional ownership of income notes.

## FOMC II LP

### INVESTMENT ADVISER'S REPORT, continued

Figure 1.4 – CLO arbitrage spread (loan minus liability spreads) for Master Fund II<sup>10</sup>

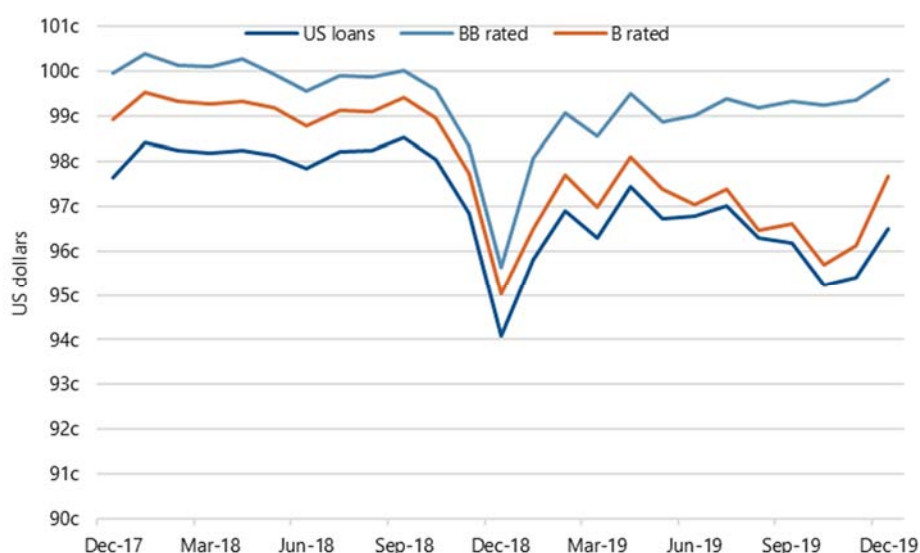


#### Loan Market Update

US institutional loan issuance was down 28.6% from 2018 to US\$310.1 billion<sup>11</sup>. The spread of the Credit Suisse Leveraged Loan index fell from Libor+5.50% as at 31 December 2018 to Libor+4.61% as at 31 December 2019<sup>12</sup> while the spread of the BB rated loans (a more appropriate proxy for CLO's higher average credit quality holdings), tightened from Libor+4.14% to Libor+2.62% in the same period<sup>13</sup>.

A prominent theme in 2019 was investor demand (including from CLOs) for higher quality assets. This created bifurcation between US BB and B rated loans (Figure 1.5).

Figure 1.5 - Average bid price of US leveraged loans, BB and B rated loans<sup>14</sup>



<sup>10</sup> Source: Intex. The loan spread is based on loan par value weighted by Master Fund II's proportional ownership of CLO income notes. The cost of funding of the CLO liabilities is based on CLO liability spreads weighted by Master Fund II's proportional ownership of income notes. Data calculated at month-end. Note that the chart has not been extended to the time of publishing as new issue CLO liability spread data is not reliable in the absence of new issuance in late March 2020.

<sup>11</sup> Source: S&P Global Intelligence.

<sup>12</sup> Based on 3-year discount margin from Credit Suisse Leveraged loan index.

<sup>13</sup> Based on 3-year discount margin of BB rated loans from Credit Suisse Leveraged loan index.

<sup>14</sup> Source: Credit Suisse Leveraged Loan index.

## FOMC II LP

### INVESTMENT ADVISER'S REPORT, continued

Fundamentals appeared sustainable during 2019 even though EBITA grew slowly in the first half of the year. The average leverage from US large corporates, defined as corporates with EBITDA of more than US\$50 million, was broadly in line with the end of 2018 after rising to 5.4x in Q2 2019 (Figure 1.6)<sup>15</sup> while interest coverage fell from 3.5x at the end of 2018 to 2.9x (Figure 1.7)<sup>16</sup>.

Figure 1.6 – Average debt multiples of large corporate loans<sup>17</sup>

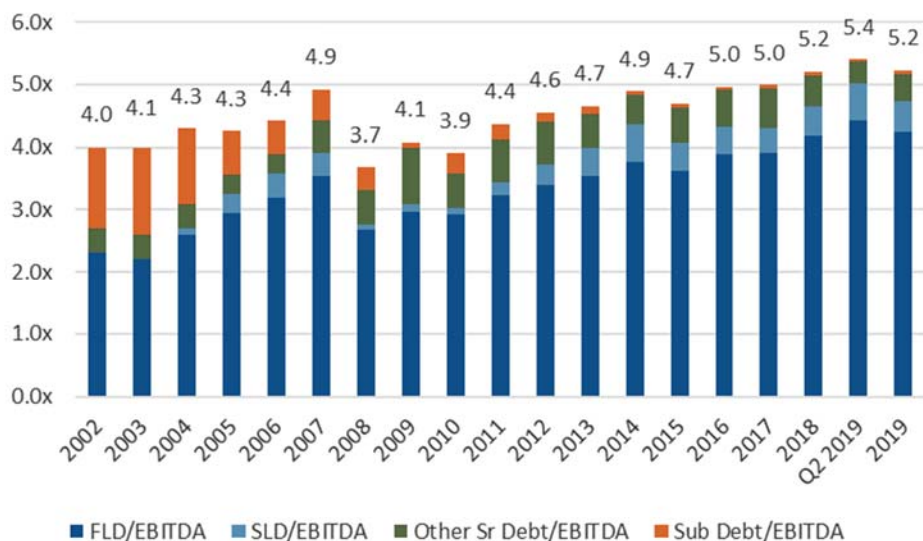
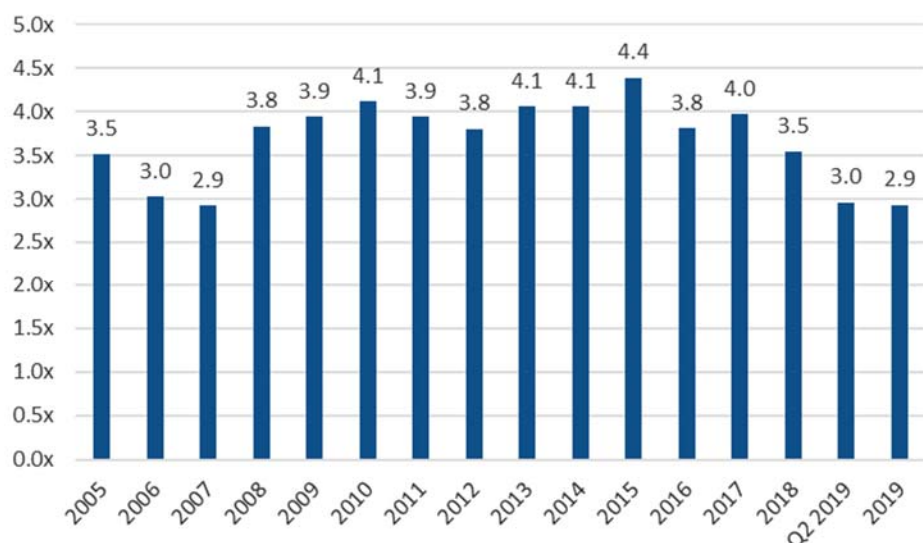


Figure 1.7 – Adjusted EBITDA/Cash interest of large corporates<sup>18</sup>



The rolling twelve-month default rate decreased from 1.63% in December 2018 to 1.39% as of 31 December 2019<sup>19</sup>. A total of twenty-three loan issuers tracked by the US S&P/LSTA index defaulted in 2019 with retail and energy borrowers continuing to be large contributors with four defaults<sup>20</sup>.

<sup>15</sup> Source: LCD's Quarterly Leveraged Lending Review: Q4 2019 from S&P Global Intelligence. Analysis excludes media and telecom loans prior to 2011. EBITDA adjusted for prospective cost savings or synergies.

<sup>16</sup> Source: LCD's Quarterly Leveraged Lending Review: Q4 2019 from S&P Global Intelligence. Based on non-adjusted EBITDA/Cash interest which excludes media and telecom loans prior to 2011.

<sup>17</sup> Source: LCD's Quarterly Leveraged Lending Review: Q4 2019 from S&P Global Intelligence. EBITDA adjusted for prospective cost savings or synergies.

<sup>18</sup> Source: LCD's Quarterly Leveraged Lending Review: Q4 2019 from S&P Global Intelligence. Based on non-adjusted EBITDA/Cash interest which excludes media and telecom loans prior to 2011.

<sup>19</sup> S&P/LSTA Leveraged Loan index by principal amount, data as at 31 December 2019.

<sup>20</sup> Based on S&P/LSTA defaults' list and Moody's industry classification. Data as at 31 December 2019.

## FOMC II LP

### INVESTMENT ADVISER'S REPORT, continued

We continue to be cautious about credit quality and have seen an increase in the number of loans trading at distressed levels this year. The share of performing loans in the S&P/LSTA Leveraged Loan index priced below 80 cents on the dollar increased from 2.68% at the end of December 2018 to 3.75% at the end of December 2019<sup>21</sup>. However, we take comfort that the level still remains below the historical average of 4.53% (Figure 1.8)<sup>22</sup>.

Figure 1.8 – Distressed ratio on US loans<sup>20</sup>



According to a quarterly survey published in early December 2019 by S&P Global Intelligence, loan managers lowered their default rate prediction for December 2020 from 2.79% (in December 2018's survey) to 2.32% but predict the default rate to rise above the historical average (of 2.88%) by December 2021 (Figure 1.9)<sup>23</sup>.

Figure 1.9 – Lagging 12-month default rate: historical and current expectations (forecast through to December 2020)<sup>24</sup>



<sup>21</sup> Distress ratio by par amount from S&P/LSTA Leveraged Loan index. The definition of distressed loans is defined as the percentage of loans trading below 80c.

<sup>22</sup> Historical average takes into account the distressed ratio from January 2010 to December 2019.

<sup>23</sup> Default survey by LCD, an offering on S&P Global Intelligence. Historical average takes into account defaults going back to January 1999 and December 2019.

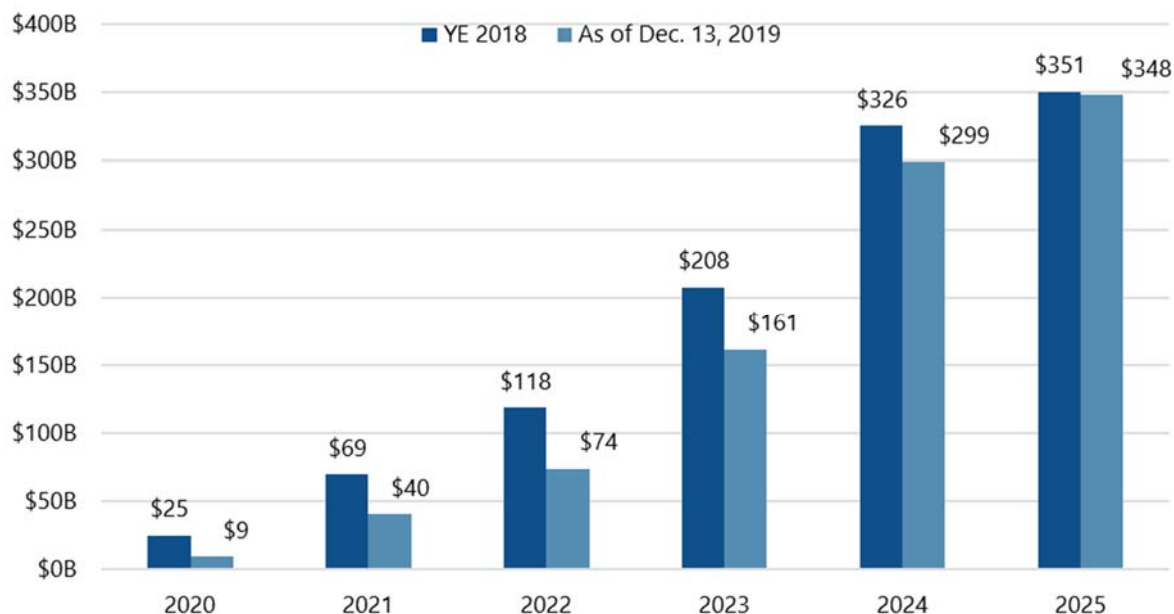
<sup>24</sup> Default survey by LCD, an offering on S&P Global Intelligence. Note that default assumptions are likely to change in 2020 to account for the economic impacts of Covid-19 and the responses to it.

## FOMC II LP

### INVESTMENT ADVISER'S REPORT, continued

The number of loans due to be repaid in the next few years is limited. The notional of loans maturing in 2020-2022 has fallen from US\$213 billion as of year-end 2018 to US\$123 billion as of 13 December 2019 (Figure 1.10)<sup>25</sup>.

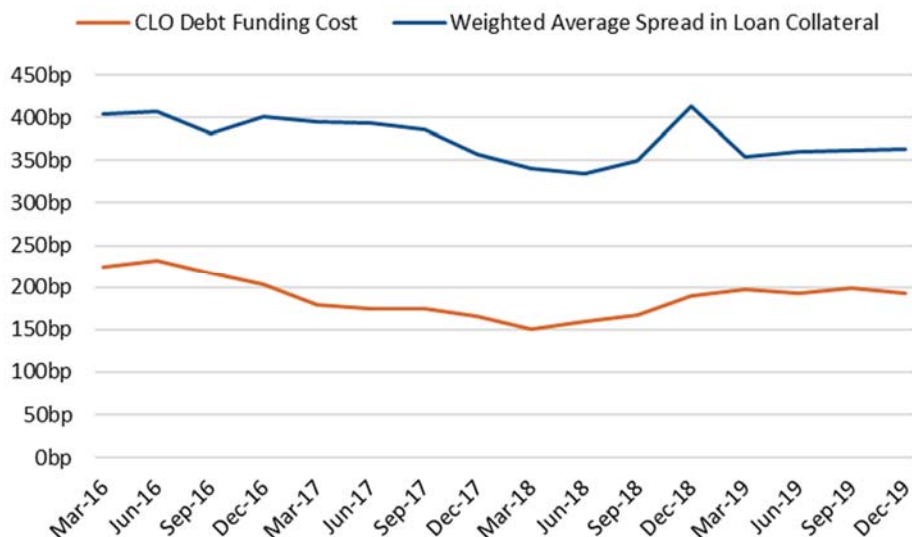
Figure 1.10 – Maturity wall of the US loan market of performing loans (US\$billions)<sup>24</sup>



#### CLO Market Update

Primary CLO arbitrage in the US remained challenging during 2019 as loan spreads tightened from December 2018 while CLO liabilities remained elevated (see Figure 2.10)<sup>26</sup>. Despite the unfavourable economics, US CLO new issuance of US\$119 billion in 2019 was only down 10% on 2018<sup>27</sup>.

Figure 2.10 – US primary CLO liabilities and loan spreads<sup>26</sup>



<sup>25</sup> S&P Global Intelligence, Q4-2019. Distribution by year of maturity.

<sup>26</sup> Source: Citi. Data as at 31 December 2019.

<sup>27</sup> Source: JP Morgan CLO issuance volume. Data as at 31 December 2019.

## **FOMC II LP**

### **INVESTMENT ADVISER'S REPORT, continued**

#### **Outlook**

The outlook for financial markets, and the Master Fund II, has changed significantly in the first quarter of 2020 due to the spread of COVID-19 and the impact of the associated mitigation and suppression actions by governments around the world. At the time of writing, it is too early to predict the severity or duration of the economic impact of COVID-19 or how a now likely increase in corporate defaults may be mitigated by government support.

The Master Fund, of which Master Fund II holds a majority interest, de-risked significantly ahead of the spread of COVID-19, exiting five majority equity positions in 2019 and a further three majority equity positions and a minority equity position in January and early February 2020. Master Fund II reinvestments were in rated CLO debt and in a European CLO and CLO warehouse which both have portfolios significantly more conservative than the market average.

We will continue to work to manage the risk in the portfolio, through disposals and opportunistic reinvestment and by working with the managers of CLOs in which the Master Funds hold equity positions, aiming to minimise credit losses in the loan portfolios and take advantage of opportunities appropriately.

Fair Oaks Capital Limited  
17 April 2020



## **FOMC II LP**

### **STATEMENT OF GENERAL PARTNER'S RESPONSIBILITIES**

Fair Oaks Income Fund (GP) Limited (the "General Partner") is responsible for preparing the Financial Statements of FOMC II LP (the "Partnership") in accordance with applicable law and regulations and with the amended and restated Limited Partnership Agreements dated 9 March 2017 and 12 March 2019 (the "LPA").

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors of Fair Oaks Income Fund (GP) Limited have accepted responsibility for the preparation of these non-statutory financial statements for the year ended 31 December 2019 (the "Financial Statements") which are intended by them to give a true and fair view of the state of affairs of the Partnership and of the profit or loss for that period. They have decided to prepare the non-statutory Financial Statements in accordance with International Financial Reporting Standards as issued by the IASB.

In preparing these non-statutory Financial Statements, the Directors have:

- 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 being disclosed and explained in the non-statutory Financial Statements;
- assessed the Partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- used the going concern basis of accounting unless they either intend to liquidate the Partnership or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of non-statutory Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Partnership and to prevent and detect fraud and other irregularities.

Christopher Waldron  
Director of the General Partner  
17 April 2020

# INDEPENDENT AUDITOR'S REPORT TO THE PARTNERS OF FOMC II LP

## Our opinion is unmodified

We have audited the Financial Statements of FOMC II LP (the "Partnership"), which comprise the statement of financial position as at 31 December 2019, the statement of comprehensive income, the statement of changes in partnership interests and the statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying Financial Statements:

- give a true and fair view, in accordance with International Financial Reporting Standards as issued by the IASB of the financial position of the Partnership as at 31 December 2019 and of the Partnership's financial performance and cash flows for the year then ended;
- have been prepared in accordance with the requirements of the Limited Partnership Agreements dated 9 March 2017 and 12 March 2019 (the "Limited Partnership Agreements").

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and the terms of our engagement letter. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Partnership in accordance with, UK ethical requirements including FRC Ethical Standards. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Emphasis of matter - special purpose basis of accounting

We draw attention to note 2 of the Financial Statements, which describes the basis of accounting. The Financial Statements are prepared to assist the Partnership to comply with the provisions of the Limited Partnership Agreement. As a result, the financial statements may not be suitable for another purpose.

Our opinion is not modified in this respect.

## We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the Financial Statements. We have nothing to report in these respects.

## We have nothing to report on the other information in the Annual Report

The General Partner is responsible for the other information. The other information comprises the information included in the annual report but does not include the Financial Statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# **INDEPENDENT AUDITOR'S REPORT TO THE PARTNERS OF FOMC II LP, continued**

## **Respective responsibilities**

### ***General Partner's responsibilities***

As explained more fully in their statement set out on page 10, the General Partner is responsible for: the preparation of the Financial Statements in accordance with the accounting policies set out in note 2 and in accordance with the Limited Partnership Agreement; such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Partnership or to cease operations, or have no realistic alternative but to do so.

### ***Auditor's responsibilities***

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of this report and restrictions on its use by persons other than the Partnership's partners, as a body**

This report is made solely to the Partnership's partners, as a body, in accordance with our terms of engagement as detailed in our letter of 18 October 2017. 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 Partnership and the partners, as a body, for our audit work, for this report, or for the opinions we have formed.

**KPMG Channel Islands Limited**  
*Chartered Accountants, Guernsey*

17 April 2020

**FOMC II LP**  
**STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 December 2019

		1 January 2019 to 31 December 2019 US\$	1 January 2018 to 31 December 2018 US\$
	Note		
<b>Revenue</b>			
Net losses on financial assets at fair value through profit or loss	6	(27,534,792)	(24,726,003)
Investment income	6	27,345,674	28,934,703
Net gains on derivatives at fair value through profit or loss and foreign exchange		1,232,003	718,465
Other income		487,857	62,698
<b>Total revenue</b>		<b>1,530,742</b>	<b>4,989,863</b>
<b>Expenses</b>			
Priority profit share	8	2,444,670	2,113,987
Carried interest	8	-	(404,214)
Audit fees		88,544	127,086
Administration fees	8	81,965	109,450
Legal and professional fees		198,721	12,432
Custodian fees	8	65,431	49,570
General Partner expenses	8	116,583	68,449
Other expenses		87,536	39,218
<b>Total expenses</b>		<b>3,083,450</b>	<b>2,115,978</b>
<b>(Loss)/profit and total comprehensive (loss)/income for the year</b>		<b>(1,552,708)</b>	<b>2,873,885</b>

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

The accompanying notes on pages 17 to 44 form an integral part of the Financial Statements.

**FOMC II LP**  
**STATEMENT OF CHANGES IN PARTNERSHIP INTERESTS**  
For the year ended 31 December 2019

	<b>Note</b>	<b>Founder Partner US\$</b>	<b>Limited Partner US\$</b>	<b>Total US\$</b>
At 1 January 2019		350	367,005,255	367,005,605
Contributions during the year	10	-	9,782,000	9,782,000
Capital distribution declared during the year	4	-	(46,125,095)	(46,125,095)
Total comprehensive income for the year		-	(1,552,708)	(1,552,708)
Income distributions declared during the year	4	-	(30,510,995)	(30,510,995)
<b>At 31 December 2019</b>		<b>350</b>	<b>298,598,457</b>	<b>298,598,807</b>

	<b>Note</b>	<b>Founder Partner US\$</b>	<b>Limited Partner US\$</b>	<b>Total US\$</b>
At 1 January 2018		350	344,759,518	344,759,868
Contributions during the year	10	-	70,200,000	70,200,000
Total comprehensive income for the year		-	2,873,885	2,873,885
Income distributions declared during the year	4	-	(50,828,148)	(50,828,148)
<b>At 31 December 2018</b>		<b>350</b>	<b>367,005,255</b>	<b>367,005,605</b>

The accompanying notes on pages 17 to 44 form an integral part of the Financial Statements.

**FOMC II LP**  
**STATEMENT OF FINANCIAL POSITION**  
**At 31 December 2019**

	Note	31 December 2019 US\$	31 December 2018 US\$
<b>Assets</b>			
Cash and cash equivalents		16,107,356	4,016,841
Other receivables and prepayments	9	124,469	6,255,796
Financial assets at fair value through profit or loss	6	285,420,752	370,132,597
<b>Total assets</b>		<b>301,652,577</b>	<b>380,405,234</b>
<b>Liabilities</b>			
Trade and other payables	11	1,473,177	316,698
Distribution payable	4	1,168,089	12,908,631
Derivatives at fair value through profit or loss		412,504	174,300
<b>Total liabilities</b>		<b>3,053,770</b>	<b>13,399,629</b>
<b>Net assets</b>		<b>298,598,807</b>	<b>367,005,605</b>
<b>Partnership interests represented by:</b>			
Limited Partner		298,598,457	367,005,255
Founder Partner		350	350
<b>Total partnership interests</b>		<b>298,598,807</b>	<b>367,005,605</b>

The Financial Statements on pages 13 to 44 were approved and authorised for issue by the General Partner on 17 April 2020 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 17 to 44 form an integral part of the Financial Statements.

**FOMC II LP**  
**STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2019

		<b>1 January 2019 to 31 December 2019 US\$</b>	<b>1 January 2018 to 31 December 2018 US\$</b>
<b>Cash flows used in operating activities</b>			
(Loss)/profit for the year		(1,552,708)	2,873,885
Adjustments to reconcile profit to net cash flows:			
Investment income	6	(27,345,674)	(28,934,703)
Net losses on financial assets at fair value through profit or loss	6	27,534,792	24,726,003
Net unrealised gains on derivatives at fair value through profit or loss and foreign exchange		(1,232,003)	(718,465)
		<u>(2,595,593)</u>	<u>(2,053,280)</u>
(Increase)/decrease in other receivables and prepayments		(3,162)	336
Increase in other payables		1,156,479	129,613
Decrease in carried interest payable	8	-	(404,214)
Purchase of investments	6	(88,464,446)	(229,409,366)
Sale of investments	6	72,999,685	61,126,531
Capital distributions from Master Fund during the year	6	46,647,531	96,753,930
Capital distributions from Cycad during the year	6	-	600,913
Income distributions from Master Fund during the year		10,170,352	40,073,657
Income distributions from Cycad during the year		2,179,058	1,320,051
Coupon interest received	6	47,125,037	20,791,096
<b>Net cash flow from/(used in) operating activities</b>		<b><u>89,214,941</u></b>	<b><u>(11,070,733)</u></b>
<b>Cash flows from financing activities</b>			
Proceeds from capital contributions	10	9,782,000	70,200,000
Income distributed during the year		(42,251,537)	(62,749,999)
Capital distributed during the year		(46,125,095)	-
<b>Net cash flow (used in)/from financing activities</b>		<b><u>(78,594,632)</u></b>	<b><u>7,450,001</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>10,620,309</b>	<b>(3,620,732)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>4,016,841</b>	<b>6,744,808</b>
<b>Effect of foreign exchange rate changes during the year</b>		<b>1,470,206</b>	<b>892,765</b>
<b>Cash and cash equivalents at end of year*</b>		<b><u>16,107,356</u></b>	<b><u>4,016,841</u></b>

\* Includes US\$2,900,000 (31 December 2018: US\$2,900,000) restricted cash. Refer to note 5 for further details.

The accompanying notes on pages 17 to 44 form an integral part of the Financial Statements.



# FOMC II LP

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2019

#### 1. GENERAL INFORMATION

FOMC II LP (the "Partnership") was registered in Guernsey on 24 February 2017 under The Limited Partnerships (Guernsey) Law, 1995, as amended. The Partnership 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 Partnership is governed by the Second Amended and Restated Limited Partnership Agreements dated 12 March 2019 (the "LPA") and was due to terminate on 12 June 2024. The Partnership shall continue until the later of (i) expiry of five years from the date the Commitment Period ends; and (ii) such date on which the Partnership ceases to hold any investment in a Collateralised Loan Obligations ("CLOs") issuer which was made during the Commitment Period and for which the Partnership has acted as originator for risk retention purposes. On 21 May 2019, the General Partner exercised its discretion to extend the Commitment Period by one year to 12 June 2020. The Partnership may be dissolved earlier, pursuant to conditions in the LPA.

The Partnership invests in US and European Collateralised Loan Obligations ("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 to achieve the Partnership's investment objective of generating attractive risk-adjusted returns, principally through income distributions.

At 31 December 2019, the Partnership has an investment in FOIF LP (the "Master Fund") and holds 66.20% (31 December 2018: 62.82%) of the commitment capital of the Master Fund. On 1 April 2019, the Partnership increased its investment in the Master Fund by 3.38% through a purchase of limited partnership interests from an existing Limited Partner in the Master Fund.

The Partnership also has an investment in Cycad Investments LP ("Cycad") and holds 14.96% of the commitment capital of Cycad. The General Partner has determined that the Partnership has all the elements of control as prescribed by IFRS 10 in relation to the Master Fund, as the Partnership is the majority limited partner in the Master Fund, is exposed and has rights to the returns of the Master Fund and has the ability either directly or through the Investment Adviser to affect the amount of its returns from the Master Fund.

With effect from 24 February 2017, Fair Oaks Income Fund (GP) Limited (the "General Partner") was appointed as the General Partner to the Partnership and with effect from 9 March 2017, Fair Oaks Capital Ltd (the "Investment Adviser") was appointed as the Investment Adviser to the Partnership.

The Partnership commenced trading on 5 April 2017.

#### 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 Partnership'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 ("FVTPL").

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 Partnership for the period to which it relates and does not omit any matter or development of significance.

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

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

**2. SIGNIFICANT ACCOUNTING POLICIES, continued**

**New Accounting Standards and interpretations adopted in the reporting period**

The following standards and interpretations have been applied in these Financial Statements:

- Amendments to IFRS 9, "Financial Instruments"- Prepayment Features with Negative Compensation (effective for periods commencing on or after 1 January 2019) - amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments;
- Amendments to IAS 28 – Long-term interests in Associates and Joint Ventures (effective for periods commencing on or after 1 January 2019) - clarifies that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied;
- Interpretations 23 Uncertainty over income tax treatments (effective for periods commencing on or after 1 January 2019);
- Annual Improvements to IFRS standards 2015-2017 Cycle effective for periods commencing on or after 1 January 2019);
- Amendments to References to Conceptual Framework in IFRS Standard (effective for periods commencing on or after 1 January 2019);

The adoption of these standards has not had a material impact on these Financial Statements of the Partnership.

**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 have not been applied in these Financial Statements, were in issue but not yet effective:

- Amendments to IAS 1 and IAS 8 – Definition of Material (effective for periods commencing on or after 1 January 2020) – The amendments in *Definition of Material (Amendments to IAS 1 and IAS 8)* clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards;
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform (effective for periods commencing on or after 1 January 2020) – The amendments in *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)* clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.
- Amendments to References to Conceptual Framework in IFRS Standard (effective for periods commencing on or after 1 January 2020).

The General Partner expects that the adoption of these amended standards in a future period will not have a material impact on the Financial Statements of the Partnership.

**Investment Income**

Investment income comprises interest income received and receivable on the Partnership's CLO investments.

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.

**Other income**

Other income comprises interest income received and receivable from cash and cash equivalents.

**Net (losses)/gains on Financial Assets at Fair Value through Profit or Loss**

Net (losses)/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 recognized in the Statement of Comprehensive Income.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

**2. SIGNIFICANT ACCOUNTING POLICIES, continued**

**Net gains/(losses) on Derivatives at Fair Value through Profit or Loss and Foreign Exchange**

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

Net (losses)/gains on derivatives at fair value through profit or loss as foreign exchange are recognised in the Statement of Comprehensive Income.

**Expenses**

Expenses of the Partnership 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, including restricted cash. 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 IFRS 9.

On initial recognition, the Partnership classifies financial assets as measured at amortised cost or at FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").

All other financial assets of the Partnership are measured at FVTPL.

In making an assessment of the objective of the business model in which a financial asset is held, the Partnership considers all of the relevant information about how the business is managed.

The Partnership has determined that it has two business models.

- *Held-to-collect business model:* this includes cash and cash equivalents, prepayments and distributions receivable. These financial assets are held to collect contractual cash flow.
- *Other business model:* this includes investments in CLOs and derivatives. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent sales taking place.

The Investment entities exception to consolidation ("Investment entities exception") in IFRS 10 'Consolidated Financial Statements' ("IFRS 10") requires subsidiaries of an investment entity to be accounted for at fair value through profit or loss in accordance with IFRS 9. Subsidiaries of the Partnership are therefore accounted for at fair value through profit or loss.

*Financial assets at amortised cost:*

*Loans and receivables:* cash and cash equivalents, prepayments and other receivables.

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.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

**2. SIGNIFICANT ACCOUNTING POLICIES, continued**

***Financial liabilities – Classification, subsequent measurement and gains and losses***

A non-derivative financial asset with fixed or determinable payments could be classified as a loan and receivable unless it was quoted in an active market or was an asset for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Financial liabilities are classified as measured at amortised cost or FVTPL.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

***Financial liabilities at FVTPL:***

***Held for trading:*** derivative financial instruments.

***Financial liabilities at amortised cost:***

This includes trade and other payables.

***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.

***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/(losses) 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 Partnership 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 IFRS 9. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

**2. SIGNIFICANT ACCOUNTING POLICIES, continued**

**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 IFRS 9.

In order for the Investment Entities exception to be relevant to the Partnership, 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 2019, the General Partner had determined that seven CLOs (31 December 2018: nine) on a look through basis were subsidiaries. Details on how that conclusion was reached are set out in Note 7 – 'Interests in Other Entities'.

Therefore, as a parent, the Partnership had determined that it met the definition of an 'investment entity' under the Investment Entity Amendment 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 Partnership prepares individual financial statements only, with its investments in the subsidiaries measured at fair value through profit or loss.

**Foreign Currency**

***Functional and presentation currency***

The Financial Statements of the Partnership are presented in the currency of the primary economic environment in which the Partnership operates (the "functional currency"). The General Partner has considered the primary economic currency of the Partnership and considered the currency in which the original finance was raised, distributions made, and ultimately what currency would be returned if the Partnership 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 Partnership. 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 Partnership are presented in US Dollar, which has been selected as the presentation currency of the Partnership. 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 reporting date when fair value was determined.

**Taxation**

The Partnership 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 Partnership that has been deducted at source is allocated to individual Limited Partners in accordance with the LPA.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

**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 Partnership as at 31 December 2019 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 as the Partnership has adequate financial resources to meet its liabilities as they fall due.

**Investment in other entities**

At 31 December 2019, the General Partner was satisfied that the Partnership met the definition of an investment entity, and had also concluded that seven investments (31 December 2018: nine) on a look through basis met the definition of a subsidiary in accordance with IFRS 10, with the remaining CLOs on a look through basis in which the Partnership invests meeting the definition of structured entities in accordance with IFRS 12. These conclusions are further detailed in Note 7 – ‘Interest in Other Entities’.

**Estimates**

***Fair value***

The Partnership records its investments both in the Master fund and in Cycad at fair value, where the fair values are determined as the Partnership’s share of the Net Asset Values (“NAV”) of the investments. The Investment Adviser has reviewed the NAV of the investments and determined that no adjustments regarding liquidity discounts were required. The fair values of other financial assets at fair value through profit or loss are based on fair values provided by 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. 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 Partnership’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 derivatives). 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 Partnership 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.

# FOMC II LP

## NOTES TO THE FINANCIAL STATEMENTS, continued

### For the year ended 31 December 2019

#### 4. DISTRIBUTIONS

Pursuant to clause 13 of the LPA, all income proceeds and capital proceeds of the Partnership (after payment of expenses and liabilities) are allocated to the Limited Partner in accordance with its respective interest 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% on the Limited Partners outstanding capital commitment, excluding capital and interest proceeds received from the Master Fund); and
- fourth, 85% to the Limited Partners and 15% to the Founder Partner.

Income proceeds received by the Partnership 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 received from CLO investments are distributed in accordance with the above as soon as practicable after the relevant amounts have been received by the Partnership. No capital proceeds were received from CLO investments during the year ended 31 December 2019 (31 December 2018: US\$nil).

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

During the year ended 31 December 2019, the Partnership declared income distributions totalling US\$30,510,995 (31 December 2018: US\$50,828,148) to the Limited Partner, of which US\$1,168,089 (31 December 2018: US\$12,908,631) remained outstanding as at 31 December 2019.

During the year ended 31 December 2019, the Partnership declared capital distributions totalling US\$46,125,095 (31 December 2018: US\$nil) to the Limited Partner, of which US\$nil (31 December 2018: US\$nil) remained outstanding as at 31 December 2019.

#### 5. FINANCIAL RISK MANAGEMENT

The General Partner has overall responsibility for the establishment and oversight of the Partnership's risk management framework. The Partnership's risk management policies are established to identify and analyse the risks faced by the Partnership, 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 Partnership's activities. Below is a non-exhaustive summary of the risks that the Partnership is exposed to as a result of its use of financial assets:

##### 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 Partnership's income and/or the value of its holdings in financial assets.

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



**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

**5. FINANCIAL RISK MANAGEMENT, continued**  
**Market Risk, continued**

The General Partner seeks to mitigate market risk in the Partnership 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 Partnership'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 Partnership does not apply hedge accounting.

*Interest Rate Risk*

The Partnership is exposed to interest rate risk through investments held by the Master Fund and Cycad, on a look-through basis to the underlying assets in the CLOs.

The Partnership invests directly into CLOs and also indirectly through its investment in the Master Fund and Cycad. The Master Fund and Cycad invest in CLOs. The majority of the Partnership's financial assets comprise investments held indirectly through the Master Fund, which invests in income notes: Equity Subordinated and Mezzanine tranches of cash flow CLOs. The Partnership'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 2019, the interest rate profile of the portfolio held directly by the Partnership and on a look through basis to the underlying Limited Partnerships was as follows:

	<b>31 December 2019</b>			
	<b>Partnership</b>	<b>Master Fund</b>	<b>Cycad</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Investments with exposure to a floating interest rate	228,694,198	44,045,876	12,680,677	285,420,752
Financial assets at fair value through profit or loss	<b>228,694,198</b>	<b>44,045,876</b>	<b>12,680,677</b>	<b>285,420,752</b>

As at 31 December 2018, the interest rate profile of the portfolio held directly by the Partnership and on a look through basis to the underlying Limited Partnerships was as follows:

	<b>31 December 2018</b>			
	<b>Partnership</b>	<b>Master Fund</b>	<b>Cycad</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Investments with exposure to a floating interest rate	255,394,116	100,846,199	13,892,282	370,132,597
Financial assets at fair value through profit or loss	<b>255,394,116</b>	<b>100,846,199</b>	<b>13,892,282</b>	<b>370,132,597</b>

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.

<b>31 December 2019</b>		<b>31 December 2018</b>	
<b>Possible reasonable change in rate</b>	<b>Effect on net assets and profit or loss US\$</b>	<b>Possible reasonable change in rate</b>	<b>Effect on net assets and profit or loss US\$</b>
-1%	(3,221,616)	-1%	(1,623,577)
1%	2,962,967	1%	1,644,438

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

**5. FINANCIAL RISK MANAGEMENT, continued**  
**Market Risk, continued**

*Currency risk*

Investments acquired are predominantly denominated in US Dollar. However, the Partnership 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 Partnership 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 Partnership.

The Partnership 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 Partnership considering the liquidity risk that is attached to any derivative contracts that could be used (e.g. margin calls on those contracts).

As at 31 December 2019, the total net foreign currency exposure on a look through basis was as follows:

	<b>31 December 2019</b>			
	<b>Partnership</b>	<b>Master Fund*</b>	<b>Cycad*</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>EUR Exposure</b>				
Financial assets at fair value through profit or loss	42,739,623	2,354,156	-	45,093,779
Derivatives at fair value through profit or loss	(42,778,704)	(2,235,750)	-	(45,014,454)
Other payables	(85,540)	(32,257)	-	(117,797)
<b>Net EUR Exposure</b>	<b>(124,621)</b>	<b>86,149</b>	<b>-</b>	<b>(38,472)</b>

	<b>31 December 2019</b>			
	<b>Partnership</b>	<b>Master Fund*</b>	<b>Cycad*</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>GBP Exposure</b>				
Other payables	(36,822)	(4,557)	(10,089)	(51,468)
<b>Net GBP Exposure</b>	<b>(36,822)</b>	<b>(4,557)</b>	<b>(10,089)</b>	<b>(51,468)</b>
<b>NET EXPOSURE</b>	<b>(161,443)</b>	<b>81,592</b>	<b>(10,089)</b>	<b>(89,940)</b>

\*Based on the Partnership's proportionate percentage share exposure of the Master Fund at 66.202% and Cycad at 14.96%.

	<b>31 December 2018</b>			
	<b>Partnership</b>	<b>Master Fund*</b>	<b>Cycad*</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>EUR Exposure</b>				
Financial assets at fair value through profit or loss	28,668,405	2,460,817	-	31,129,222
Derivatives at fair value through profit or loss	(28,818,600)	(2,606,953)	-	(31,425,553)
Other payables	(87,496)	(46,116)	-	(133,612)
<b>Net EUR Exposure</b>	<b>(237,691)</b>	<b>(192,252)</b>	<b>-</b>	<b>(429,943)</b>

	<b>31 December 2018</b>			
	<b>Partnership</b>	<b>Master Fund*</b>	<b>Cycad*</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>GBP Exposure</b>				
Other receivables	-	3,135	-	3,135
Other payables	(4,886)	-	(7,315)	(12,201)
<b>Net GBP Exposure</b>	<b>(4,886)</b>	<b>3,135</b>	<b>(7,315)</b>	<b>(9,066)</b>
<b>NET EXPOSURE</b>	<b>(242,577)</b>	<b>(189,117)</b>	<b>(7,315)</b>	<b>(439,009)</b>

\*Based on the Partnership's proportionate percentage share exposure of the Master Fund at 62.82% and Cycad at 14.96%.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
For the year ended 31 December 2019

**5. FINANCIAL RISK MANAGEMENT, continued**  
**Market Risk, continued**

As at 31 December 2019, the following forward foreign exchange contract was in place:

<b>Maturity Date</b>	<b>Contract amount</b>		<b>Buy</b>	<b>Sell</b>	<b>Unrealised loss US\$</b>
10 March 2020	EUR38,000,000	US\$42,366,200	US Dollar	Euro	(412,504)

As at 31 December 2018, the following forward foreign exchange contract was in place:

<b>Maturity Date</b>	<b>Contract amount</b>		<b>Buy</b>	<b>Sell</b>	<b>Unrealised loss US\$</b>
7 March 2019	EUR25,000,000	US\$28,644,300	US Dollar	Euro	(174,300)

	<b>Possible change in exchange rate</b>	<b>31 December 2019 net exposure US\$</b>	<b>31 December 2019 effect on net assets and profit or loss (if unhedged) US\$</b>
EUR/US Dollar	+/- 10%	(38,472)	-/+ 3,847
GBP/US Dollar	+/- 15%	(51,468)	-/+ 7,720

	<b>Possible change in exchange rate</b>	<b>31 December 2018 net exposure US\$</b>	<b>31 December 2018 effect on net assets and profit or loss (if unhedged) US\$</b>
EUR/US Dollar	+/- 10%	(429,943)	-/+ 42,994
GBP/US Dollar	+/- 15%	(9,066)	-/+ 1,360

The sensitivity rate of 10% (31 December 2018: 10%) is regarded as reasonable due to the recent volatility of US Dollar against Euro.

The sensitivity rate of 15% (31 December 2018: 15%) is regarded as reasonable due to the recent volatility of US Dollar against Sterling.

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

	<b>31 December 2019 %</b>	<b>31 December 2018 %</b>
<b>Currency</b>		
US Dollar	85.0	92.3
Euro	15.0	7.7
<b>Total</b>	<b>100.00</b>	<b>100.0</b>

*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 Partnership's investments increased or decreased by +/- 10% (31 December 2018: 10%) at the year end, the impact on the NAV would be +/- US\$28,542,075 (31 December 2018: US\$37,013,260). At 31 December 2019, the sensitivity rate of 10% (31 December 2018: 10%) is regarded as reasonable due to the actual market price volatility experienced on the Partnership's investments during the year.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

**5. FINANCIAL RISK MANAGEMENT, continued**  
**Market Risk, continued**

**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 Partnership's prospectus, and by taking collateral.

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>US\$</b>	<b>US\$</b>
Cash and cash equivalents	16,107,356	4,016,841
Other receivables and prepayments	124,469	6,255,796
Financial assets at fair value through profit or loss	285,420,752	370,132,597
	<b>301,652,577</b>	<b>380,405,234</b>

The cash and substantially all of the assets of the Partnership are held by BNP Paribas Securities Services S.C.A., Guernsey Branch (the "Custodian") and forward foreign currency contracts are placed with The Royal Bank of Scotland International Limited ("RBSI"). Bankruptcy or insolvency of the Custodian and RBSI may cause the Partnership's rights with respect to securities held by the Custodian and RBSI 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 2019 was Aa3 as rated by Moody's (31 December 2018: Aa3) and A+ by Standard & Poor's (31 December 2018: A). The long-term rating of RBSI as at 31 December 2019 was Baa2 (31 December 2018: Baa2) as rated by Moody's and A- (31 December 2018: BBB-) by Standard & Poor's.

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 Partnership, 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 Partnership's exposure to the credit risk of all of the directly held underlying CLO investments and its investments into the Master Fund and Cycad based on the country of registration (not necessarily asset class exposure) is as follows:

	<b>31 December 2019</b>			
	<b>Partnership</b>	<b>Master Fund</b>	<b>Cycad</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
United States of America	185,954,576	-	12,680,677	198,635,253
Europe	42,739,623	-	-	42,739,623
Guernsey	-	44,045,876	-	44,045,876
<b>Total</b>	<b>228,694,199</b>	<b>44,045,876</b>	<b>12,680,677</b>	<b>285,420,752</b>

	<b>31 December 2018</b>			
	<b>Partnership</b>	<b>Master Fund</b>	<b>Cycad</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
United States of America	226,725,711	-	13,892,282	240,617,993
Europe	28,668,405	-	-	28,668,405
Guernsey	-	100,846,199	-	100,846,199
<b>Total</b>	<b>255,394,116</b>	<b>100,846,199</b>	<b>13,892,282</b>	<b>370,132,597</b>

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

**5. FINANCIAL RISK MANAGEMENT, continued**  
**Credit and Counterparty Risk, continued**

The underlying CLO investments geographical breakdown is as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Country*</b>	<b>%</b>	<b>%</b>
United States of America	83.8	90.9
United Kingdom	3.1	1.5
France	2.6	1.0
Canada	2.3	2.2
Luxembourg	2.0	1.7
Netherlands	1.8	1.7
Other	4.4	1.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\*Shows the Partnership's exposure in the underlying CLO investments includes its exposure through its investments in the Master Fund and Cycad.

Source: CLO trustee reports. Based on the Partnership's exposure and weighted by CLO size and Partnership's equity ownership percentage.

The table below summarises the Partnership's portfolio concentrations on a look through basis:

	<b>Maximum portfolio holdings of a single asset % of total portfolio*</b>	<b>Average portfolio holdings % of total portfolio*</b>
31 December 2019	10.32%	3.70%
31 December 2018	8.22%	3.33%

\*Shows the Partnership's exposure in the underlying CLO investments includes its exposure through its investments in the Master Fund and Cycad.

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>By Asset Class</b>	<b>US\$</b>	<b>US\$</b>
Equity Subordinated CLO notes	223,660,448	250,257,485
Mezzanine CLO notes	5,033,751	5,136,631
Limited Partnerships	56,726,553	114,738,481
	<b>285,420,752</b>	<b>370,132,597</b>

The underlying on a look through basis CLO investments rating breakdown is as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Rating*</b>	<b>%</b>	<b>%</b>
B	35.9	41.8
B-	17.4	14.0
B+	16.0	19.9
BB-	9.3	11.2
BB	5.5	6.6
BB+	2.6	2.9
CCC+	1.7	1.6
BBB-	0.5	0.6
CCC	0.4	0.3
CCC-	0.2	0.2
D	0.2	0.0
BBB	0.1	0.0
CC	0.0	0.1
NR	10.2	0.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\*Shows the Partnership's exposure in the underlying CLO investments includes its exposure through its investments in the Master Fund and Cycad.

Source: CLO trustee reports. Based on the Partnership's exposure and weighted by CLO size and Partnership's equity ownership percentage.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

**5. FINANCIAL RISK MANAGEMENT, continued**

**Credit and Counterparty Risk, continued**

The Partnership'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.

**Liquidity Risk**

Liquidity risk is the risk that the Partnership 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 Partnership 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 Partnership's reputation.

The Partnership'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 Partnership'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\$2,900,000 (31 December 2018: US\$2,900,000), of the Partnership's cash was held in a restricted account. RBSI holds this cash as collateral against potential losses on forward foreign exchange contracts.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

**5. FINANCIAL RISK MANAGEMENT, continued**

**Liquidity Risk, continued**

<b>31 December 2019</b>	<b>Less than 3 months US\$</b>	<b>3 – 6 months US\$</b>	<b>6 – 12 months US\$</b>	<b>1 – 2 years US\$</b>	<b>2 – 3 years US\$</b>	<b>5 – 6 years US\$</b>	<b>Total US\$</b>
<b>Financial assets</b>							
Financial assets at fair value through profit or loss	-	8,988,105	16,997,871	29,039,013	97,330,987	133,064,776	285,420,752
Other receivables and prepayments	124,469	-	-	-	-	-	124,469
Cash and cash equivalents	16,107,356	-	-	-	-	-	16,107,356
<b>Total financial assets</b>	<b>16,231,825</b>	<b>8,988,105</b>	<b>16,997,871</b>	<b>29,039,013</b>	<b>97,330,987</b>	<b>133,064,776</b>	<b>301,652,577</b>
<b>Financial liabilities</b>							
Other payables	(1,387,638)	(85,539)	-	-	-	-	(1,473,177)
Derivatives at fair value through profit or loss	(412,504)	-	-	-	-	-	(412,504)
Distribution payable	(1,168,089)	-	-	-	-	-	(1,168,089)
<b>Total financial liabilities</b>	<b>(2,968,231)</b>	<b>(85,539)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,053,770)</b>
<b>Liquidity gap</b>	<b>13,263,594</b>	<b>8,902,566</b>	<b>16,997,871</b>	<b>29,039,013</b>	<b>97,330,987</b>	<b>133,064,776</b>	<b>298,598,807</b>
<b>Total cumulative liquidity gap</b>	<b>13,263,594</b>	<b>22,166,160</b>	<b>39,164,031</b>	<b>68,203,044</b>	<b>165,534,031</b>	<b>298,598,807</b>	<b>298,598,807</b>
<b>31 December 2018</b>	<b>Less than 3 months US\$</b>	<b>3 – 6 months US\$</b>	<b>1 – 2 years US\$</b>	<b>2 – 3 years US\$</b>	<b>3 – 4 years US\$</b>	<b>5 – 6 years US\$</b>	<b>Total US\$</b>
<b>Financial assets</b>							
Financial assets at fair value through profit or loss	-	28,668,405	100,846,199	4,752,000	65,536,700	170,329,293	370,132,597
Other receivables and prepayments	6,255,796	-	-	-	-	-	6,255,796
Cash and cash equivalents	4,016,841	-	-	-	-	-	4,016,841
<b>Total financial assets</b>	<b>10,272,637</b>	<b>28,668,405</b>	<b>100,846,199</b>	<b>4,752,000</b>	<b>65,536,700</b>	<b>170,329,293</b>	<b>380,405,234</b>
<b>Financial liabilities</b>							
Other payables	(229,202)	(87,496)	-	-	-	-	(316,698)
Derivatives at fair value through profit or loss	(174,300)	-	-	-	-	-	(174,300)
Distribution payable	(12,908,631)	-	-	-	-	-	(12,908,631)
<b>Total financial liabilities</b>	<b>(13,312,133)</b>	<b>(87,496)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(13,399,629)</b>
<b>Liquidity gap</b>	<b>(3,039,496)</b>	<b>28,580,909</b>	<b>100,846,199</b>	<b>4,752,000</b>	<b>65,536,700</b>	<b>170,329,293</b>	<b>367,005,605</b>
<b>Total cumulative liquidity gap</b>	<b>(3,039,496)</b>	<b>25,541,413</b>	<b>126,387,612</b>	<b>131,139,612</b>	<b>196,676,312</b>	<b>367,005,605</b>	<b>367,005,605</b>



**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

**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 Partnership'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 Partnership 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 Partnership'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 Partnership. The Partnership'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 Partnership.

**Concentration Risk**

The Partnership has diversified its exposure to industry sectors. At 31 December 2019, the top 10 are as follows:

	<b>31 December 2019</b>
<b>Industry*</b>	<b>%</b>
Health care	12.5
Business equipment and services	9.1
High Tech Industries	8.8
Telecommunications	7.2
Financial intermediaries	6.9
Hotel, Gaming & Leisure	5.7
Broadcast radio and television	5.1
Chemical and plastics	4.3
Services: Consumer	3.6
Beverage, Food and tobacco	3.5
	<b>66.7</b>

\*Shows the Partnership's exposure in the underlying CLO investments includes its exposure through its investments in the Master Fund and Cycad.

Source: CLO trustee reports. Based on the Partnership's exposure and weighted by CLO size and Partnership's equity ownership percentage

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

**5. FINANCIAL RISK MANAGEMENT, continued**

**Concentration Risk, continued**

The Partnership has diversified its exposure to industry sectors. At 31 December 2018, the top 10 are as follows:

	<b>31 December 2018</b>
<b>Industry*</b>	<b>%</b>
Business equipment and services	17.2
Health care	11.6
Telecommunications	6.2
Broadcast radio and television	5.9
Lodging and casinos	5.4
Financial intermediaries	5.0
Building and development	4.2
Chemical and plastics	4.0
Electrical equipment	3.8
Utilities	3.5
	<b>66.8</b>

\*Shows the Partnership's exposure in the underlying CLO investments includes its exposure through its investments in the Master Fund and Cycad.

Source: CLO trustee reports. Based on the Partnership's exposure and weighted by CLO size and Partnership'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:

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>US\$</b>	<b>US\$</b>
Cost at the start of the year	433,599,680	353,757,233
Purchases during the year	88,464,446	229,409,366
Sales during the year	(72,999,685)	(61,126,531)
Realised (losses)/gains on sales during the year	(1,697,606)	1,126,532
Capital distributions from Master Fund during the year	(46,647,531)	(96,753,930)
Capital distributions from Cycad during the year	-	(956,597)
Investment income	27,345,674	28,934,703
Coupon interest received	(47,125,037)	(20,791,096)
Amortised cost of investments at the end of the year	380,939,941	433,599,680
Net unrealised losses on investments at the end of the year	(94,519,189)	(63,467,083)
<b>Financial assets at fair value through profit or loss at the end of the year</b>	<b>285,420,752</b>	<b>370,132,597</b>
Realised (losses)/gains on sales during the year	(1,697,606)	1,126,532
Movement in net unrealised losses on investments during the year	(32,052,106)	(49,349,074)
Income distributions from Master Fund during the year	4,935,700	22,254,970
Income distributions from Cycad during the year	1,279,220	1,241,569
<b>Net losses on financial assets at fair value through profit or loss during the year</b>	<b>(27,534,792)</b>	<b>(24,726,003)</b>

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

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

The following table provides a reconciliation of the financial assets at fair value through profit or loss held directly by the Partnership and on a look through basis to the underlying Limited Partnerships:

	31 December 2019 US\$	31 December 2018 US\$
The Partnership's direct financial assets at fair value through profit or loss	228,694,198	255,394,116
Master Fund's financial assets at fair value through profit or loss	50,583,862	114,110,460
Cycad's financial assets at fair value through profit or loss	12,745,322	14,866,534
<b>Total Financial Assets at fair value through profit or loss on a look through basis</b>	<b>292,023,382</b>	<b>384,371,110</b>
Master Fund's other net liabilities	(6,537,986)	(13,264,260)
Cycad's other net liabilities	(64,644)	(974,253)
<b>The Partnership's Financial Assets at Fair Value through profit or loss</b>	<b>285,420,752</b>	<b>370,132,597</b>

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.

# FOMC II LP

## NOTES TO THE FINANCIAL STATEMENTS, continued

For the year ended 31 December 2018

### 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 Partnership'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 2019			Total
	Level 1 US\$	Level 2 US\$	Level 3 US\$	US\$
Financial assets at fair value through profit or loss	-	5,033,751	280,387,001	285,420,752
Derivatives at fair value through profit or loss	-	(412,504)	-	(412,504)
<b>Total</b>	<b>-</b>	<b>4,621,247</b>	<b>280,387,001</b>	<b>285,008,248</b>

	31 December 2018			Total
	Level 1 US\$	Level 2 US\$	Level 3 US\$	US\$
Financial assets at fair value through profit or loss	-	5,136,632	364,995,965	370,132,597
Derivatives at fair value through profit or loss	-	(174,300)	-	(174,300)
<b>Total</b>	<b>-</b>	<b>4,962,332</b>	<b>364,995,965</b>	<b>369,958,297</b>

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

	31 December 2019 US\$	31 December 2018 US\$
Opening Balance	364,995,965	339,639,224
Purchases during the year	88,464,446	223,897,348
Sales during the year	(72,999,685)	(61,126,531)
Realised (losses)/gains on sales during the year	(1,697,606)	1,126,532
Capital distributions from the Master Fund during the year	(46,647,531)	(96,753,930)
Capital distributions from Cycad during the year	-	(956,597)
Investment income	26,723,937	28,453,614
Coupon interest received	(46,532,885)	(20,791,096)
Net unrealised losses on financial assets held at fair value through profit or loss	(31,919,640)	(48,492,599)
Closing Balance	<b>280,387,001</b>	<b>364,995,965</b>

Unrealised losses on financial assets held at fair value through profit or loss at the end of the year	(94,877,747)	(62,610,608)
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#### Transfers between Level 1, 2 and 3

There have been no transfers between levels during the year ended 31 December 2019 (31 December 2018: nil). Transfers between levels of the fair value hierarchy are recognised as at the end of the reporting period during which the change has occurred.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

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

The following table summarises the valuation methodologies used for the Company's investments in Limited Partnerships categorised in Level 3 as at 31 December 2019:

Security	Fair Value US\$	Valuation methodology	Unobservable inputs	Sensitivity to changes in significant unobservable inputs
Master Fund	44,045,876	NAV	Zero % discount	10% increase/decrease will have a fair value impact of +/- US\$4,404,588
Cycad	<u>12,680,677</u>	NAV	Zero % discount	10% increase/decrease will have a fair value impact of +/- US\$1,268,068
	<b><u>56,726,553</u></b>			

The Partnership 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 Partnership's investments categorised in Level 3 as at 31 December 2019:

Asset Class	Fair Value US\$	Unobservable inputs	Ranges	Average	Sensitivity to changes in significant unobservable inputs
<u>Income Note CLOs</u>					
United States of America	180,920,825	Prices provided by a third party agent	US\$0.4800 — US\$0.7000	US\$0.6466	10% increase/decrease will have a fair value impact of +/- US\$18,092,083
Europe	<u>42,739,623</u>	Prices provided by a third party agent	€0.0001 - €1.4500	€0.9565	10% increase/decrease will have a fair value impact of +/- US\$4,273,962
	<b><u>223,660,448</u></b>				

The following table summarises the valuation methodologies used for the Company's investments in Limited Partnerships categorised in Level 3 as at 31 December 2018:

Security	Fair Value US\$	Valuation methodology	Unobservable inputs	Sensitivity to changes in significant unobservable inputs
Master Fund	100,846,199	NAV	Zero % discount	10% increase/decrease will have a fair value impact of +/- US\$10,084,620
Cycad	<u>13,892,282</u>	NAV	Zero % discount	10% increase/decrease will have a fair value impact of +/- US\$1,389,228
	<b><u>114,738,481</u></b>			

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

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

The following table summarises, in the General Partner's opinion, the valuation methodologies used by the independent third party to value the Partnership's investments categorised in Level 3 as at 31 December 2018:

<b>Asset Class</b>	<b>Fair Value US\$</b>	<b>Unobservable inputs</b>	<b>Ranges</b>	<b>Average</b>	<b>Sensitivity to changes in significant unobservable inputs</b>
<u>Income Note CLOs</u>					
United States of America	221,589,079	Prices provided by a third party agent	US\$0.6900 — US\$0.8800	US\$0.7874	10% increase/decrease will have a fair value impact of +/- US\$22,158,908
Europe	28,668,405	Prices provided by a third party agent	€1.0000	€1.0000	10% increase/decrease will have a fair value impact of +/- US\$2,866,841
	<u>250,257,484</u>				

**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 directly and indirectly on a look through basis, 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 2019, the Partnership had seven (31 December 2018: nine) subsidiary on a look through basis 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.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

**7. INTERESTS IN OTHER ENTITIES, continued**

**Interest in unconsolidated structured entities, continued**

In the case of AIMCO 2017-AX Limited, Elevation CLO Limited, Mariner CLO 2017 IIIX Limited, Allegro CLO II Limited, Neuberger Berman CLO XIX Ltd, Neuberger Berman CLO XX Ltd, Shackleton 2015-VIII CLO Limited (the “entities”) (31 December 2018: also includes AIMCO CLO Series 2015-A Limited and TICP CLO IV Limited), 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 Partnership 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 Partnership 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 Partnership to control the contractual payments of returns, and it is therefore an indication of linkage between power and variability in returns.

The Partnership is also considered to have contingent power over the eight entities, due to the fact that it could remove the collateral managers of AIMCO 2017-AX Limited, Elevation CLO Limited, Mariner CLO 2017 IIIX Limited, Allegro CLO II Limited, Neuberger Berman CLO XIX Ltd, Neuberger Berman CLO XX Ltd, Shackleton 2015-VIII CLO Limited (31 December 2018: also includes AIMCO CLO Series 2015-A Limited and TICP CLO IV Limited) in certain contingent circumstances as the Partnership is the majority shareholder in the most subordinated tranche of the CLO. It can therefore be considered that the Partnership has contingent power which may impact the variability of returns in the future.

The General Partner has determined that the Partnership has all the elements of control as prescribed by IFRS 10 in relation to the Master Fund, as the Partnership is the majority limited partner in the Master Fund, is exposed and has rights to the returns of the Master Fund and has the ability either directly or through the Investment Adviser to affect the amount of its returns from the Master Fund.

*Investment entity status*

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



## FOMC II LP

### NOTES TO THE FINANCIAL STATEMENTS, continued For the year ended 31 December 2019

#### 7. INTERESTS IN OTHER ENTITIES, continued

##### Interest in unconsolidated structured entities, continued

Below is a summary of the Partnership's holdings in non-subsidiary unconsolidated structured entities ("SEs") on a look through basis, the Master Fund and Cycad, as at 31 December 2019:

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 FVTPL	Maximum exposure to losses US\$	Income US\$	Type of Income	Other
<u>Mezzanine Note CLOs</u>											
<i>North America</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub-Investment Grade Secured Loans - USD	3	2,846,600 - 8,606,000	5,730,033	15,277,631	5.23%	15,277,631	1,118,517	Interest income	Non-recourse*
<b>Total Mezzanine Note CLOs</b>	<b>Financial assets at fair value through profit or loss</b>		<b>3</b>	<b>2,846,600 - 8,606,000</b>	<b>5,730,033</b>	<b>15,277,631</b>	<b>5.23%</b>	<b>15,277,631</b>	<b>1,118,517</b>		<b>Non-recourse*</b>
<u>Income Note CLOs</u>											
<i>North America</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub-Investment Grade Secured Loans - USD	12	3,787,500 - 39,875,000	19,931,714	142,672,727	48.86%	142,672,727	20,587,297	Residual Interest income	Non-recourse*
<i>Europe</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub-Investment Grade Secured Loans - EUR	5	857,143 - 28,000,000	8,779,069	45,093,780	15.44%	45,093,780	1,273,036	Residual Interest income	Non-recourse*
<b>Total Income Note CLOs</b>	<b>Financial assets at fair value through profit or loss</b>		<b>17</b>	<b>857,143 - 39,875,000</b>	<b>28,710,783</b>	<b>187,766,507</b>	<b>64.30%</b>	<b>187,766,507</b>	<b>21,860,333</b>		<b>Non-recourse*</b>
<b>Total</b>			<b>20</b>			<b>203,044,138**</b>	<b>69.53%</b>	<b>203,044,138</b>	<b>22,978,850</b>		

The Partnership has a percentage range of between 0.26% and 9.82% notional holding out of the entire outstanding notional balances of the non-subsidiary unconsolidated structured entities as at 31 December 2019.

During the year ended 31 December 2019, the Partnership 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 Partnership's maximum loss is capped at the current carrying value.

\*\* The Partnership'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 40 agrees to the financial assets at fair value through profit or loss on a look through basis on page 33, where a reconciliation to the financial assets at fair value through profit or loss in the Statement of Financial Position is shown.

## FOMC II LP

### NOTES TO THE FINANCIAL STATEMENTS, continued

#### For the year ended 31 December 2019

#### 7. INTERESTS IN OTHER ENTITIES, continued

##### Interest in unconsolidated structured entities, continued

Below is a summary of the Partnership's holdings in non-subsiary unconsolidated structured entities on a look through basis, the Master Fund and Cycad, as at 31 December 2018:

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 FVTPL	Maximum exposure to losses US\$	Income US\$	Type of Income	Other
<u>Mezzanine Note CLOs</u>											
<i>North America</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub-Investment Grade Secured Loans - USD	2	5,737,500 – 8,166,600	6,952,050	12,463,104	3.24%	12,463,104	1,581,256	Interest income	Non-recourse*
<b>Total Mezzanine Note CLOs</b>	<b>Financial assets at fair value through profit or loss</b>		<b>2</b>	<b>5,737,500 – 8,166,600</b>	<b>6,952,050</b>	<b>12,463,104</b>	<b>3.24%</b>	<b>12,463,104</b>	<b>1,581,256</b>		<b>Non-recourse*</b>
<u>Income Note CLOs</u>											
<i>North America</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub-Investment Grade Secured Loans - USD	15	6,167,914 – 39,875,000	22,587,841	252,750,512	65.76%	252,750,512	34,816,282	Residual Interest income	Non-recourse*
<i>Europe</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub-Investment Grade Secured Loans - EUR	1	4,394,316	4,394,316	2,460,817	0.64%	2,460,817	203,350	Residual interest income	Non-recourse*
<b>Total Income Note CLOs</b>	<b>Financial assets at fair value through profit or loss</b>		<b>16</b>	<b>4,394,316 – 39,875,000</b>	<b>13,491,079</b>	<b>255,211,329</b>	<b>66.40%</b>	<b>255,211,329</b>	<b>35,019,632</b>		<b>Non-recourse*</b>
<b>Total</b>			<b>18</b>			<b>267,674,433**</b>	<b>69.64%</b>	<b>267,674,433</b>	<b>36,600,888</b>		

The Partnership has a percentage range of between 0.99% and 9.59% notional holding out of the entire outstanding notional balances of the non-subsiary unconsolidated structured entities as at 31 December 2018.

During the year ended 31 December 2018, the Partnership did not provide financial support to the non-subsiary 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 Partnership's maximum loss is capped at the current carrying value.

\*\* The Partnership's total fair value holding in non-subsiary unconsolidated structured entities (above), plus the total fair value holding of its unconsolidated structured entities subsidiaries on page 41 agrees to the financial assets at fair value through profit or loss on a look through basis on page 33, where a reconciliation to the financial assets at fair value through profit or loss in the Statement of Financial Position is shown.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

**7. INTERESTS IN OTHER ENTITIES, continued**

**Interest in unconsolidated structured entities, continued**

Summary of the Partnership's holdings in unconsolidated subsidiaries on a look through basis, the Master Fund and Cycad, as at 31 December 2019:

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 FVTPL	Maximum exposure to losses US\$	Income US\$	Type of Income	Other
Income Note CLOs <i>North America</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub- Investment Grade Secured Loans - USD	9	13,769,600 – 30,050,000	23,368,796	88,979,244	30.47%	88,979,244	7,698,121	Residual interest income	Non recourse*
	<b>Financial assets at fair value through profit or loss</b>		<b>9</b>	<b>13,769,600 – 30,050,000</b>	<b>23,368,796</b>	<b>88,979,244</b>	<b>30.47%</b>	<b>88,979,244</b>	<b>7,698,121</b>		<b>Non recourse*</b>
<b>Total Income Note CLOs</b>			<b>9</b>			<b>88,979,244**</b>	<b>30.47%</b>	<b>88,979,244</b>	<b>7,698,121</b>		
<b>Total</b>											

The Partnership has a percentage range of between 3.44% and 6.77% notional holding out of the entire outstanding notional balances of the subsidiaries AIMCO 2017-AX Limited, Elevation CLO Limited, Mariner CLO 2017 IIIX Limited, Allegro CLO II Limited, Neuberger Berman CLO XIX Ltd, Neuberger Berman CLO XX Ltd, Shackleton 2015-VIII CLO Limited as at 31 December 2019.

The Master Fund sold two subsidiary investments, AIMCO CLO Series 2015-A Limited and TICP CLO IV Limited, during the year ended 31 December 2019. There were no other purchases or sales of investments in subsidiaries during the year.

For the financial year ended 31 December 2019, the Partnership 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 Partnership's maximum loss is capped at the current carrying value.

\*\* The Partnership'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 38 agrees to the financial assets at fair value through profit or loss on a look through basis on page 33, where a reconciliation to the financial assets at fair value through profit or loss in the Statement of Financial Position is shown.

# **FOMC II LP** **NOTES TO THE FINANCIAL STATEMENTS, continued** **For the year ended 31 December 2019**

## **7. INTERESTS IN OTHER ENTITIES, continued** **Interest in unconsolidated structured entities, continued**

Summary of the Partnership's holdings in unconsolidated subsidiaries on a look through basis, the Master Fund and Cycad, as at 31 December 2018:

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 FVTPL	Maximum exposure to losses US\$	Income US\$	Type of Income	Other
<u>Mezzanine Note CLOs</u>											
<i>North America</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub- Investment Grade Secured Loans - USD	1	2,701,260	2,701,260	2,582,254	0.67%	2,582,254	582,272	Interest income	Non-recourse*
<b>Total Mezzanine Note CLOs</b>	<b>Financial assets at fair value through profit or loss</b>		<b>1</b>	<b>2,701,260</b>	<b>2,701,260</b>	<b>2,582,254</b>	<b>0.67%</b>	<b>2,582,254</b>	<b>582,272</b>		<b>Non-recourse*</b>
<u>Income Note CLOs</u>											
<i>North America</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub- Investment Grade Secured Loans - USD	8	12,878,100 – 23,871,600	17,256,535	85,446,018	22.23%	85,446,018	12,105,932	Residual interest income	Non recourse*
<i>Europe</i>											
	Financial assets at fair value through profit or loss	Broadly Syndicated sub- Investment Grade Secured Loans - EUR	1	28,668,405	28,668,405	28,668,405	7.46%	28,668,405	-	Residual interest income	Non recourse*
<b>Total Income Note CLOs</b>	<b>Financial assets at fair value through profit or loss</b>		<b>9</b>	<b>2,701,260 – 28,668,405</b>	<b>22,962,470</b>	<b>114,114,423</b>	<b>29.69%</b>	<b>114,114,423</b>	<b>12,105,932</b>		<b>Non recourse*</b>
<b>Total</b>			<b>10</b>			<b>116,696,677**</b>	<b>30.36%</b>	<b>116,696,677</b>	<b>12,688,204</b>		

The Partnership has a percentage range of between 0.65% and 4.70% notional holding out of the entire outstanding notional balances of the subsidiaries, AIMCO CLO Series 2015-A Limited, Arrowpoint CLO 2014-3 Limited, Allegro CLO II Limited, TICP CLO IV Limited, Neuberger Berman CLO XIX Ltd, Neuberger Berman CLO XX Ltd, Shackleton 2015-VIII CLO Limited and Fair Oaks Loan Funding I as at 31 December 2018.

The Master Fund sold two subsidiary investments, Covenant Credit Partners CLO II Limited and Ares XXXV CLO Limited, during the year ended 31 December 2018. There were no other purchases or sales of investments in subsidiaries during the year.

For the financial year ended 31 December 2018, the Partnership 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 Partnership's maximum loss is capped at the current carrying value.

\*\* The Partnership'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 39 agrees to the financial assets at fair value through profit or loss on a look through basis on page 33, where a reconciliation to the financial assets at fair value through profit or loss in the Statement of Financial Position is shown.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

**8. RELATED PARTIES AND OTHER MATERIAL CONTRACTS**

**Transactions with key management personnel**

*General Partner*

The General Partner of the Partnership is entitled to receive a Priority Profit Share from the Partnership 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\$2,444,670 (31 December 2018: US\$2,113,987) of which US\$185,809 (31 December 2018: US\$204,221) was included in other payables at 31 December 2019. During the year, the Partnership paid expenses of US\$116,583 (31 December 2018: US\$68,449) on behalf 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\$150 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 Partnership NAV.

At 31 December 2019, one Limited Partner had committed capital of over US\$150 million and received a rebate of US\$1,220,734 (31 December 2018: US\$1,049,960) of its Priority Profit Share.

The Partnership 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 Partnership 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 2019, US\$nil (31 December 2018: US\$nil) carried interest had been accrued for the benefit of the Founder Partner.

*Fair Oaks CLOs*

At 31 December 2019, The Partnership had investments in FOAKS 1X CLO Limited and Fair Oaks Loan Funding II (the "Fair Oaks CLOs") valued at €28,122,957 and €10,000,000 respectively. The Investment Adviser to the Company also acts as collateral manager to the Fair Oaks CLOs. In addition, the Partnership acts as the risk retention holder for the Fair Oaks CLOs. As risk retention holder, the Partnership is required to retain, on an ongoing basis, a material net economic interest in the Fair Oaks CLOs of not less than 5%.

**Other Material Contracts**

*Administrator*

With effect from 9 March 2017, 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 Partnership per annum, subject to a minimum annual fee of US\$67,760 (31 December 2018: US\$66,235), payable quarterly in arrears for Administration and Accounting services. The overall charge for the above-mentioned fees for the Partnership and the amounts due are disclosed below for information purposes.

*Custodian*

With effect from 9 March 2017, BNP Paribas Securities Services S.C.A., Guernsey Branch (the "Custodian") was appointed as the custodian of the Partnership.

The Custodian is entitled to receive aggregate fees of up to 0.03% per annum of the NAV of the Partnership for the provision of trustee and custodial services to the Partnership, subject to a minimum annual fee of US\$30,000 (31 December 2018: US\$30,000).

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>US\$</b>	<b>US\$</b>
<b>CHARGE FOR THE YEAR</b>		
Priority profit share	2,444,670	2,113,987
Carried interest	-	(404,214)
Administration fees	81,965	109,450
Custodian fees	65,431	49,570
General Partner expenses	116,583	68,449

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

**8. RELATED PARTIES AND OTHER MATERIAL CONTRACTS, continued**

	31 December 2019 US\$	31 December 2018 US\$
<b>OUTSTANDING FEES</b>		
Priority profit share	185,809	204,221
Administration fees	12,471	6,857
Custodian fees	10,447	12,671
General Partner expenses	38,918	5,453

**9. OTHER RECEIVABLES AND PREPAYMENTS**

	31 December 2019 US\$	31 December 2018 US\$
Income distribution receivable from Master Fund	-	5,234,652
Income distribution receivable from Cypad	119,612	1,019,450
Prepaid annual fees	4,507	1,344
Founder Partner committed capital receivable	350	350
	<b>124,469</b>	<b>6,255,796</b>

**10. 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% 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 Limited Partner but not yet distributed to it.

<b>31 December 2019:</b>	<b>Contributed Capital US\$</b>	<b>Loan Capital US\$</b>	<b>Total US\$</b>
Opening Balance	4,291	429,116,666	429,120,957
Net contributions during the year	97	9,781,903	9,782,000
Net distributions during the year	-	(46,125,095)	(46,125,095)
Closing balance	<b>4,388</b>	<b>392,773,474</b>	<b>392,777,862</b>

<b>31 December 2018:</b>	<b>Contributed Capital US\$</b>	<b>Loan Capital US\$</b>	<b>Total US\$</b>
Opening Balance	3,589	358,917,368	358,920,957
Net contributions during the year	702	70,199,298	70,200,000
Closing balance	<b>4,291</b>	<b>429,116,666</b>	<b>429,120,957</b>

As at 31 December 2019, there was US\$42,664,150 of undrawn commitments (31 December 2018: US\$4,875,795). 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\$350 of capital to the Partnership, of which US\$350 remained outstanding at 31 December 2019 (31 December 2018: US\$350 outstanding). On the final closing date (12 June 2017) 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 Partnership at the final closing date.

**FOMC II LP**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**For the year ended 31 December 2019**

**11. TRADE AND OTHER PAYABLES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>US\$</b>	<b>US\$</b>
Income distribution prepaid from Master Fund	1,139,993	-
Priority profit share payable (Note 8)	185,809	204,221
Administration fees payable (Note 8)	12,471	6,857
Audit fees payable	85,539	87,496
Custodian fee payable (Note 8)	10,447	12,671
General Partner expenses payable	38,918	5,453
	<b>1,473,177</b>	<b>316,698</b>

**12. SUBSEQUENT EVENTS**

COVID-19 is a developing situation and as of 17 April 2020, the assessment of this situation will need continued attention and will evolve over time. In our view, consistent with many others in our industry, COVID-19 is considered to be a non-adjusting post period event and no adjustment is made in the Financial Statements as a result. The rapid development and fluidity of the COVID-19 virus make it difficult to predict the ultimate impact at this stage. However, we do not underestimate the seriousness of the issue and the inevitable effect it will have on the Global economy and many businesses across the world.

It is premature to seek to quantify the fundamental impact of the pandemic, which will depend on an array of factors including the effectiveness of recently announced government intervention, but over time there is risk of underlying CLO managers being required to divert cash flows from CLO subordinated notes to purchase additional loan collateral in response to increased credit downgrades and defaults. The Investment Adviser has also taken steps to minimise mark-to-market risk, retaining a prudent reserve of cash to cover any foreign exchange hedge and warehouse financing needs.

The dislocation in the credit markets will create investment opportunities, which is expected to be a factor in the allocation of future cash flows as the Company continues to seek to maximise limited partners total return over the long term.

In March 2020, the Partnership's investment in a new European CLO was postponed due to the effective closure of the CLO new issuance market. The Partnership invested in the subordinated notes of the intended CLO vehicle in late 2019 and early 2020, during its warehousing phase, and expects to exchange this investment for subordinated notes in the CLO when issued. The pricing of this CLO, and replacement of its warehouse financing facility with longer-term CLO financing is expected to take place later in 2020 or in early 2021, ahead of the September 2021 maturity of the warehouse financing facility.

On 15 April 2020, the General Partner approved a third Amended and Restated Limited Partnership Agreement (the "third LPA"). The changes were for clarification purposes or were immaterial and accordingly it was considered that the General Partner could approve the amendments in the third LPA pursuant to clause 20.2 of the second LPA. In addition, the General Partner approved the following:

- (a) an extension of the period during which further persons may be admitted as Limited Partners into the Partnership, the Commitment Period to 21 June 2021 and the Final Closing Date to 5 April 2021; and
- (b) a subscription by a new limited partner into the Partnership in the sum of US\$65,000,000.

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



**FOMC II LP**  
**PORTFOLIO STATEMENT (unaudited)**  
**As at 31 December 2019**

	<b>Market value 2019 US\$</b>	<b>Percentage of NAV 2019 %</b>
<b>Euro</b>		
FOAKS 1X SUB	30,135,151	10.09
Fair Oaks Loan Funding II*	11,210,994	3.75
FOAKS 1X Z	1,393,367	0.47
FOAKS 1X M	112	0.00
<b>US Dollar</b>		
FOIF LP*	44,045,876	14.75
POST 2018-1X SUB	26,319,275	8.81
ALLEG 2017-2X SUB	25,520,000	8.55
SHACK 2018-12X SUB	21,000,000	7.03
WELF 2018-1X SUB	19,346,250	6.48
MARNR 2017-4X SUB*	18,778,500	6.29
ARES 2015-35RX SUB	17,940,000	6.01
HLM 13X-18 SUB	17,905,500	6.00
AWPT 2017-6X SUB*	17,128,500	5.74
AIMCO 2017-AX SUB*	15,164,800	5.08
Cycad Investments LP	12,680,677	4.25
HLM 13X-18 F	5,033,750	1.69
NEUB 2019 SUB	1,818,000	0.61
	<b>285,420,752</b>	<b>95.60</b>

\* Subsidiary undertaking as defined under IFRS 10.

## **FOMC II LP**

### **MANAGEMENT AND ADMINISTRATION**

#### **Directors of the General Partner**

Christopher Waldron (Independent non-executive Chairman)  
Miguel Ramos Fuentenebro (Non-independent non-executive Director) (resigned 22 July 2019)  
Miguel Arraya (Independent non-executive Director)  
Chris Hickling (Independent non-executive Director) (appointed 22 July 2019)

#### **Registered Office and Business Address**

Sarnia House  
Le Truchot  
St Peter Port  
Guernsey GY1 1GR

#### **Administrator and Secretary**

Praxis Fund Services Limited  
Sarnia House  
Le Truchot  
St Peter Port  
Guernsey GY1 1GR

#### **Investment Adviser**

Fair Oaks Capital Ltd  
1 Albermarle Street  
London W1S 4HA

#### **General Partner**

Fair Oaks Income Fund (GP) Limited  
Sarnia House  
Le Truchot  
St Peter Port  
Guernsey GY1 1GR

#### **Legal Advisers in Guernsey**

Carey Olsen (Guernsey) LLP  
Carey House  
Les Banques  
St Peter Port  
Guernsey GY1 4BZ

#### **Legal Advisers in United Kingdom**

Dechert LLP  
160 Queen Victoria Street  
London EC4V 4QQ

#### **Custodian and Principal Bankers**

BNP Paribas Securities Services S.C.A.  
BNP Paribas House  
St Julian's Avenue  
St Peter Port  
Guernsey GY1 1WA

#### **Independent Auditor**

KPMG Channel Islands Limited  
Gategny Court  
Gategny Esplanade  
St Peter Port  
Guernsey GY1 1WR

