Real Estate Credit Investments Limited

Annual Report and Accounts

2023

Annual Report and Accounts 2023

Attractive returns from credit exposure to UK and Western European real estate credit markets

Real Estate Credit Investments is a specialist investor in the United Kingdom and Western European real estate credit markets with a focus on fundamental credit and value.

Front cover image: **UK mixed-use portfolio, predominantly office/residential**

In this report

04

At a Glance

RECI evolving to capitalise on the scalable opportunity set

08

Chairman's Statement

A robust portfolio delivering an attractive and sustainable annual dividend of 12 pence per share

62

Financial Statements

Contents

OVERVIEW
AS AT 31 MARCH 2023

Overview and Highlights

Defensive credit exposure to UK and Western European real estate credit markets	– Stable and uninterrupted dividends delivered consistently since October 2013
Granular portfolio with detailed disclosure	– 53 positions – Diverse portfolio across sectors and geography
Attractive and stable income in a changing interest rate environment	– Consistent portfolio yield of 7%+ offering a buffer to risk-free rates – A high-yielding portfolio, combined with a short weighted average life, ensures minimal exposure to yield widening and the ability to redeploy at higher rates quickly
Access to Cheyne's established real estate investment team and substantial origination pipeline	

Key figures

Total Assets
£419.0m
(31 March 2022: £447.0m)

NAV per share
£1.47
(31 March 2022: £1.50)

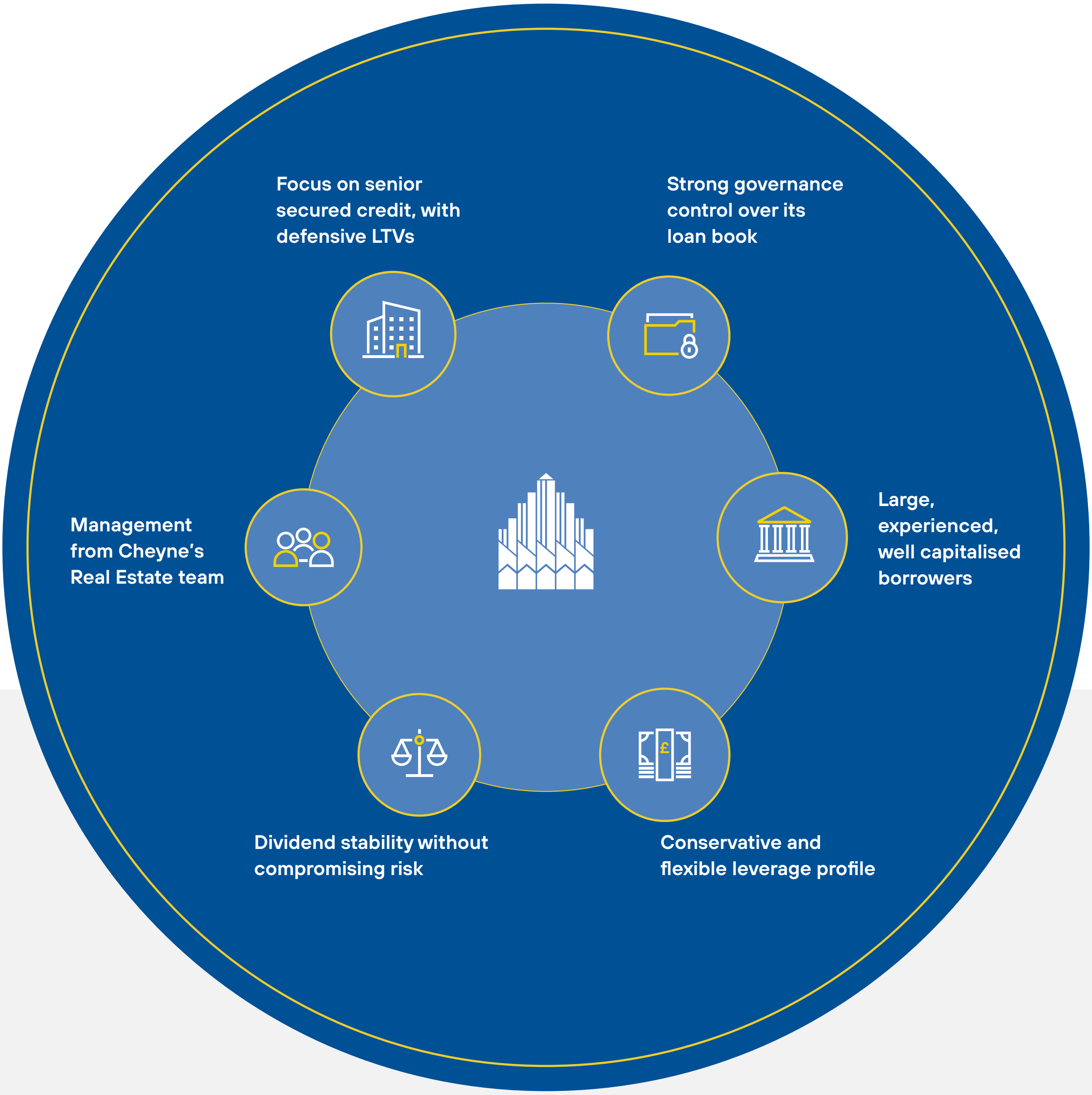
Hotel development in Finland


Co-living development in Earlsfield, London

Net Assets
£337.0m
(31 March 2022: £343.9m)

Net Profit
£20.6m
(Full year ended 31 March 2022: £24.6m profit)

RECI Offers:



Total NAV Return
6.2%
(31 March 2022: 6.9%)

Share Price
£1.34
(31 March 2022: £1.51)

Dividend Yield
9.0%
(31 March 2022: 8.0%)

FY 2023 Dividends
12.0 pence
(31 March 2022: 12.0 pence)

OVERVIEW

At a Glance

Providing compelling risk-adjusted returns

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

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

Investment areas

Bilateral Loans and Bonds
Predominantly bilateral senior real estate loans and bonds.

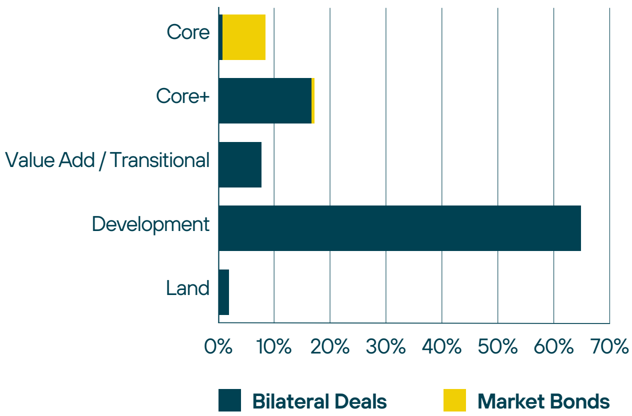
Market Bonds
Listed real estate debt securities such as Commercial Mortgage Backed Securities (CMBS) bonds.

Investment Portfolio Composition

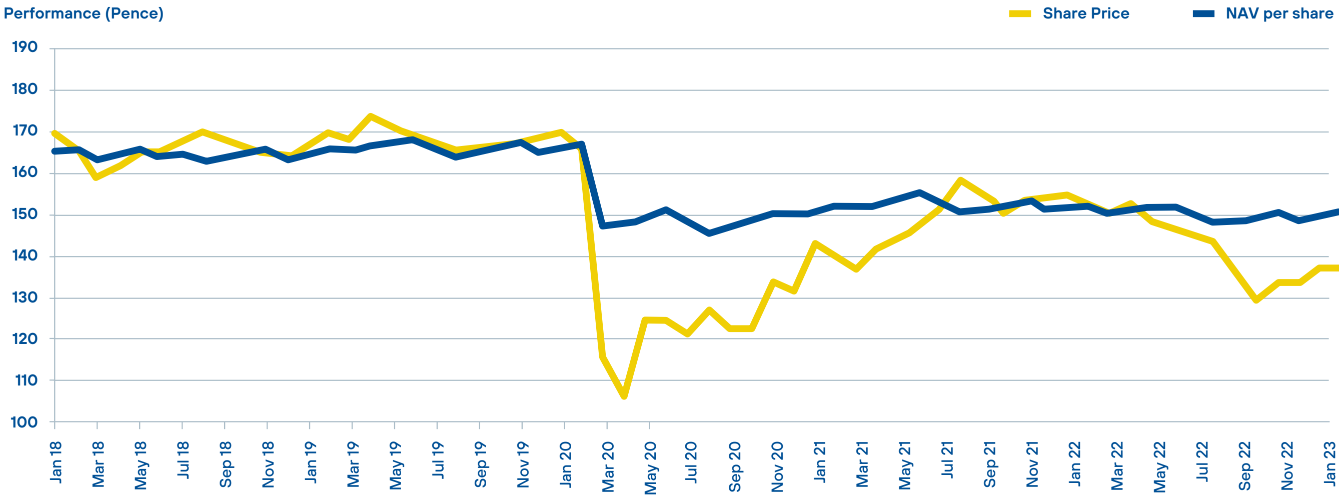
RECI's investment portfolio is a diversified book of 53 positions in real estate bonds and loans.

Portfolio by Asset Strategy

(Total Committed Capital)



Share Price vs NAV



NAV and Share Price	As at 31 March 2023
Net Assets	£337.0m
Shares Outstanding	229.3m
NAV (per share)	£1.47
Share Price (per share)	£1.34
(Discount)/Premium	(8.8)%
Dividend Yield	9.0%
Market Capitalisation	£307.3m

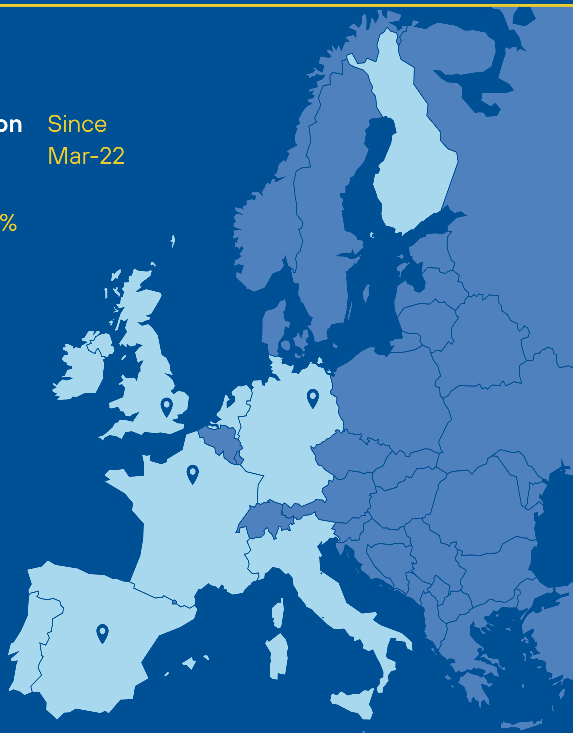
Total NAV Return*	
Half Year Ended 31 March 23	3.1%
Financial Year Ended 31 March 23	6.2%
Prior Financial Year Ended 31 March 22	6.9%
Last Three Financial Years Ended 31 March 23	26.9%
Last Five Financial Years Ended 31 March 23	32.1%

* The Total NAV Return measures the combined effect of any dividends paid, together with the rise or fall in the NAV per share. The Total NAV Return relates to past performance and takes into account both capital returns and dividends paid to Shareholders. Any dividends received by a Shareholder are assumed to have been reinvested in the assets of the Company at its NAV per share on the ex-dividend date. The Total NAV Return is considered an Alternative Performance Measure pursuant to ESMA Guidelines which is unaudited and outside of the scope of International Financial Reporting Standards ("IFRS").

Portfolio by Geography

by % of Total Committed Capital including PIK

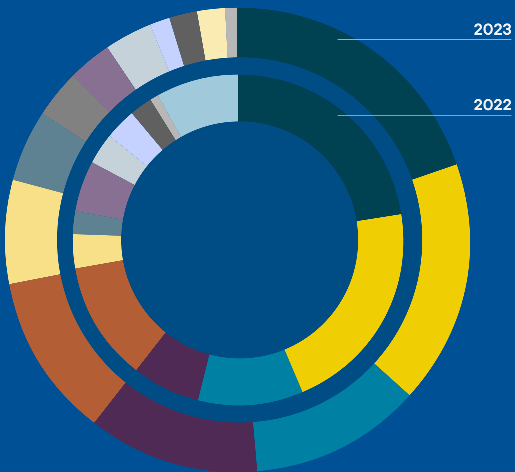
Country	% Allocation Mar-23	Since Mar-22
UK	58.3%	13.7%
France	23.8%	(11.1%)
Spain	7.5%	(3.1%)
Finland	3.7%	(0.0%)
Portugal	2.8%	2.8%
Ireland	1.6%	0.0%
Italy	1.2%	(1.4%)
Germany	1.1%	(0.9%)



icons denote Cheyne Real Estate Offices in London, Paris, Berlin and Madrid

Portfolio by Sector

by % of Total Committed Capital including PIK



	% Allocation Mar-23	% Allocation Mar-22
Hotel	19.8%	22.6%
Mixed-Use	17.1%	21.2%
Student Accommodation	11.9%	10.2%
Residential	11.8%	6.7%
Office	11.6%	11.7%
Co-Living	7.0%	3.2%
Leisure	5.0%	2.4%
Later Living	3.3%	0.0%
Housebuilder	3.3%	4.8%
Assisted Living	3.2%	3.2%
Retail	1.3%	3.1%
Logistics	2.0%	2.2%
Land	1.9%	0.0%
Industrial	0.8%	0.8%
Healthcare	0.0%	7.9%

OVERVIEW

About the Company

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

Real Estate Credit Investments Limited ("RECI" or the "Company") is incorporated in Guernsey, governed by the Companies (Guernsey) Law, 2008 (the "Companies Law") and regulated as an authorised closed-ended investment scheme by the Guernsey Financial Services Commission. At the Annual General Meeting ("AGM") in September 2021, the continuation vote was passed and the next continuation resolution will be subject to Shareholder approval at the AGM to be held in September 2025.

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

The shares are currently listed on the premium segment of the Official List of the UK Listing Authority and trade on the Main Market of the London Stock Exchange. The shares offer investors a levered exposure to a portfolio of real estate credit investments and pay a quarterly dividend.

Website and Share Price Information

The Company has a dedicated website, which can be found at www.realestatecreditinvestments.com, that contains information, including regulatory announcements, share price information, financial reports, investment objectives and strategy, investor contacts, information on the Board and information on the Alternative Investment Fund Managers Directive ("AIFMD").

Investment Objective and Investment Policy

Investment Objective

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

Investment Policy

To achieve the Investment Objective, the Company invests and will continue to invest in real estate debt secured by commercial or residential properties in the United Kingdom and Western European countries.

Hotel development in Finland

The real estate credit investments may take different forms but are likely to be:

(i) secured real estate loans, debentures or any other forms of debt instruments (together "Secured Debt"). Secured real estate loans are typically secured by mortgages over the property or charges over the shares of the property-owning vehicle. Individual Secured Debt investments will have a weighted average life profile ranging from six months to five years. Investments in Secured Debt will also be directly or indirectly secured by one or more commercial or residential properties, and shall not exceed a loan-to-value ("LTV") of 85% at the time of investment;

(ii) listed debt securities and securitised tranches of real estate related debt securities, for example, residential mortgage backed securities and commercial mortgage backed securities (together "MBS"). For the avoidance of doubt, this does not include equity residual positions in MBS; and

(iii) other direct or indirect opportunities, including equity participations in real estate, save that no more than 20% of the total assets will be invested in positions with an LTV in excess of 85% or in equity positions that are uncollateralised. On certain transactions, the Company may be granted equity positions as part of its loan terms. These positions will come as part of the Company's overall return on its investments and may or may not provide extra profit to the Company depending on market conditions and the performance of the loan. These positions are deemed collateralised equity positions. All other equity positions that the Company may invest in are deemed uncollateralised equity positions.

Dividend Policy

Subject to the applicable requirements and restrictions contained in the Companies Law, the Company may consider making interim dividend payments to Shareholders, having regard to the net income remaining after the potential reinvestment of cash or other uses of income, at a level the Directors deem appropriate, in their sole discretion, from time to time. There is no fixed date on which it is expected that dividends will be paid to Shareholders.

As it has since 2013, the Company intends to continue to pay a stable quarterly dividend with the potential for additional payments if investment returns permit

OVERVIEW

Chairman's Statement

RECI continued to deliver a stable NAV and attractive annual dividend of 12 pence per share, amid challenging times and volatile markets

Bob Cowdell
Chairman

No review of our financial year ended 31 March 2023 can ignore the extraordinary events and global economic and market volatility which provided the backdrop to your Company's performance, as it continued to deliver a stable NAV and an attractive, sustainable dividend for our Shareholders.

The war in Ukraine continued throughout the year under review and there is no imminent sign of a cessation or peaceful resolution. There have also been rising tensions in Asia caused by the actions of China and North Korea. Events saw oil and commodity prices surge higher, with supply chains still struggling to recover from the Covid crisis. The consequence was the rise of inflation throughout the world and the inevitable response of Central Banks in the UK and abroad in raising interest rates at the fastest pace seen in decades, which created currency and market volatility. Nervousness was heightened by the threat of potential recession and many suffered as the "cost of living crisis" impacted businesses and individuals.

In addition, the UK suffered political and market turmoil in Autumn 2022, following the removal of Boris Johnson as Prime Minister, the ill-fated tenure of Liz Truss and her government's September 2022 "Mini-Budget", which destabilised credit markets. These events caused significant credit and currency market reaction and Rishi Sunak, the UK's third Prime Minister during the last financial year, and his Chancellor have been seeking to steady and reassure markets to negate the political risk premium in credit and UK gilt markets.

Market confidence was further tested in Q1 of 2023 with concerns arising about the stability of the US and international banking sector, following the run on deposits of Silicon Valley Bank in the US and its UK branch and the issues at Credit Suisse ahead of its acquisition by UBS. The aggressive hiking of interest rates in the US has led to further stress being experienced by US regional banks and driven market concerns about potential issues impacting the wider banking community.

Inevitably, this has negatively impacted investor sentiment amid concerns about the credit and real estate markets. There has been significant sector widening of discounts for companies investing in real estate debt and for REITs, reflecting investor nervousness of the negative commentary on the outlook for commercial real estate valuations.

It is probably no surprise that markets in such a year have been described to me by several senior market professionals as "the worst of my career"!

Nevertheless, your Board and Cheyne remained committed to continuing to deliver attractive returns for our Shareholders. The Company's portfolio composition positioned it well to withstand the various challenges and steer a course through these difficult markets, as evidenced by the stable net asset value maintained throughout the financial year.

I am pleased to report that for the year ended 31 March 2023, RECI delivered a total net profit of £20.6 million and maintained an unchanged dividend of 3 pence per quarter, while taking the opportunity to continue to enhance the quality of RECI's portfolio.

Reacting to the changing market background, Cheyne moved to strengthen the Company's position by: transacting the majority of new loans on a floating rate basis; increasing the focus on senior loans to over 90% of the total portfolio; reducing the holding in public market bonds; and investing in a pipeline of new, higher return opportunities which will enhance the dividend income cover.

Financial Performance

RECI reported a total net profit for the financial year ended 31 March 2023 of £20.6 million on year end total assets of £419.0 million, compared with a £24.6 million net profit in the year ended 31 March 2022, on year end total assets of £447.0 million.

The NAV as at 31 March 2023 was £1.47 per share (£1.50 per share as at 31 March 2022) which, combined with the 12 pence per share of dividends payable in respect of the year ended 31 March 2023, represents an annualised total return for Shareholders of 6.2%.

During the financial year ended 31 March 2023, the Company's shares traded at an average discount to NAV of 6.1%, (0.7% premium for the year ended 31 March 2022).

Total quarterly dividends declared in respect of the financial year ended 31 March 2023 were an unchanged 12 pence per share, returning £27.5 million to our Shareholders.

In the course of the last financial year, the Company utilised short-term leverage at an average cost of borrowing of 3.2%, with average gross leverage of £121.2 million or 1.36x NAV. RECI also introduced asset level structured leverage (totalling £20.6 million at year end), at an average borrowing cost of 5.9%.

During the financial year to 31 March 2023, the Company committed £155.2 million to eight new deals and funded £158.6 million into new and existing deals, compared with £81.6 million and £113.1 million respectively in the previous financial year. RECI also received cash repayments and interest of £159.0 million in this year, compared with £132.2 million in the year ended 31 March 2022.

Financial Year Review

Despite the challenges to real estate and credit markets, in particular the yield widening in the bond markets following the 23 September 2022 "Mini-Budget", the Company's robust portfolio ensured the NAV remained stable at an average of £1.50 per share during the financial year, notwithstanding the payment to Shareholders of four unchanged dividends, totalling 12 pence per share, during the period.

That NAV resilience reflects the positioning of RECI's portfolio. In response to climbing inflation and rising interest rates, Cheyne moved to execute new loans on floating rather than fixed rate terms for the majority of its new deals. In line with our stated strategy of increasing exposure to lower risk senior positions, 90.3% of the Company's positions were in senior assets by the financial year end. The size and capital strength of RECI's chosen counterparties continued to increase and the weighted average life of the whole portfolio was 2.3 years for the financial year ended 31 March 2023. All scheduled interest and repayments were received as anticipated during the financial year; endorsing the credit quality of the portfolio, which is driven by Cheyne's investment process and deal selection.

The market turbulence also presented opportunities to deploy capital to strengthen the Company's investment returns, with Cheyne identifying a pipeline of potential transactions offering enhanced returns of over 10%. These underpin RECI's attractive current dividend pay-out of 12 pence per share per annum, improve dividend cover and provide the opportunity for NAV stability and potential growth. As at 31 March 2023 the weighted average LTV of the Company's portfolio was 59.2% (62.4% at 31 March 2022), providing significant defensive equity headroom. The new investments were funded by deploying leverage and cash from realisations and repayments. The Board maintains its practice of considering all options when assessing the levels of cash utilisation and allocation.

When the financial year began on 1 April 2022, RECI had gross balance sheet leverage of £100.4 million (1.29x NAV) and leverage net of cash of £47.8 million (1.14x NAV). The Board and Cheyne have continued to monitor RECI's cash resources and repayments and to consider the appropriate level and blend of gearing for the Company. During the last financial year, the Company introduced asset level leverage (which may be structured on a non-recourse or partial recourse basis), alongside flexible balance sheet leverage. At the year end, the Company had gross balance sheet leverage of £80.2 million (1.24x NAV) and leverage net of cash of £63.7 million (1.20x NAV), together with £20.6 million of asset level leverage.

RECI has now entered into its first partial recourse asset level leverage transactions, in line with its strategy of leverage diversification. As at 31 May 2023, the Company's gross balance sheet leverage was £59.3 million (1.17x NAV); its balance sheet leverage net of £28.7million cash was 1.09x NAV; and its net effective leverage, including contingent liabilities of £3.6 million (being the partial recourse commitment, representing 25% of asset level borrowings provided to certain asset level structured finance counterparties), was 1.10x NAV.

The negative market sentiment caused by the geopolitical and economic events during our last financial year inevitably impacted RECI's share price and saw material discount widening across the investment funds sector generally and the credit and real estate sectors, in particular.

During the half year to 30 September 2022, the Company's shares traded at an average discount to NAV of 2.4%. The market volatility following the September 2022 "Mini-Budget" provoked much greater investor uncertainty in credit markets, contributing to some reactive selling of RECI shares, causing the discount to widen further. Overall, the Company's shares traded at an average discount to NAV of 6.1% for the financial year ended 31 March 2023 and the discount has since widened to trade at an average of 13.7% since 1 April 2023 reflecting ongoing market nervousness.

The Company's shares closed at £1.29 on 19 June 2023 (a discount of 13.8%), which would provide a yield of 9.3% on the basis of continuing to pay a quarterly 3 pence dividend per share for the rest of the current financial year. The merits of RECI's offering and, in particular, the yield at current share price levels, appears to have been overlooked amid the broader volatile market background. Your Board believes that RECI provides investors with a highly attractive, long-term income stream with enhanced dividend cover. The Company is positioned to deliver this attractive dividend stream alongside a stable NAV and provide investors with a substantial and liquid company (with total assets of £419.0 million and market capitalisation of £307.3 million at 31 March 2023) with the potential to grow over time.

Ravi Stickney, CIO of Cheyne Real Estate, continued the programme of quarterly updates for Shareholders and investors, providing a detailed and comprehensive review of RECI's portfolio and Cheyne's views on the broader credit and property sectors. We are currently reviewing and seeking to enhance our programme of online events and meetings for investors. During Autumn 2022, the Board worked with our service providers to enhance the Company's website and Fact Sheet.

The global geopolitical and economic challenges of the last 15 months have caused many headlines and much market volatility and uncertainty, which has inevitably impacted investor sentiment. Against this macro backdrop, the Directors and Cheyne remain committed to providing detail and transparency regarding the Company's portfolio and investment strategy, allowing all investors to focus upon RECI and its merits and opportunities, notwithstanding the broader market environment.

Board Update

The Board and its committees continue to operate effectively, with an equal representation of male and female Directors.

Reflecting our ESG focus, the Board appointed Colleen McHugh to the role of "ESG Lead" in October 2022.

Since the start of the last financial year, members of the Board have purchased an aggregate of 90,000 shares in the Company, increasing the Directors' aggregate holding to 425,250 shares.

Environmental, Social and Governance Matters ("ESG")

Your Board continues to recognise and support the growing focus on ESG considerations and the importance of ethical factors, including climate change, when pursuing the Company's investment objective and in the selection of service providers and advisers to the Company.

In her role as "ESG Lead", Colleen McHugh is working closely with Cheyne in developing and implementing RECI's ESG approach.

Page 30 of the Stakeholder Engagement section and pages 32-36 of the Sustainability Report provide further information about the Company's and the Manager's approach to ESG matters.

Outlook

Several of the geopolitical and economic uncertainties which provided the backdrop to our financial year ended 31 March 2023 appear likely to remain for the rest of the current financial year. While it may be hoped that inflation and interest rates are approaching their peak, despite the UK's core inflation rate remaining stubbornly high, both appear likely to remain well above the average of the last decade for some time yet. The threat of potential recession remains and there are many who are feeling the daily impact of the "cost of living crisis".

Nevertheless, the Company's robust portfolio composition and its transition into senior loans and floating rate terms has positioned it well to withstand these challenges and steer a course through difficult market conditions.

In considering all options when deciding on the appropriate allocation of the Company's cash resources, the Board is mindful of when opportunities present themselves to achieve attractive repeatable returns from investments and reinvestments and thereby enhance the "investment case" for RECI. Encouragingly, Cheyne and its deal pipeline have ensured that RECI already has and will continue to benefit from the opportunities to lend at attractive returns of over 10% to enhance portfolio returns. The current market dislocation will benefit RECI in achieving enhanced terms for its lending, as competitor banks and specialist lenders to the sector withdraw.

In the face of macro volatility, your Board and Investment Manager have always believed in the benefit of focusing on that which we can exercise direct control over, namely: expert origination capability; highly disciplined investment selection; modest levels of flexible gearing; maintaining the payment of an attractive and consistent dividend; and positioning the portfolio to enhance NAV.

The Directors believe that RECI remains soundly positioned to continue to deliver an attractive and stable dividend to investors seeking a reliable long-term income stream from a listed and liquid investment company, with a highly regarded specialist Investment Manager.

Bob Cowdell
Chairman
21 June 2023

KPIs and Financial Highlights

Key Performance Indicators

	31 Mar 2023	31 Mar 2022
Balance Sheet		
Net Asset Value ("NAV") per share	**£1.47**	£1.50
Share price	**£1.34**	£1.51
(Discount)/premium	**(8.8)%**	0.4%
Average (discount)/premium in year*	**(6.1)%**	0.7%
Leverage (% of NAV)**	**23.8%**	29.4%

* Average (discount)/premium in year is the average of the difference between the share price and the NAV per share divided by NAV per share.
** Leverage is the recourse financing divided by the net assets.

	31 Mar 2023	31 Mar 2022
Profit, Loss and Dividends		
Earnings per share	**9.0p**	10.7p
Dividends per share declared for the year	**12.0p**	12.0p
Total NAV Return (including dividends) annualised	**6.2%***	6.9%

* Assumes re-investment of dividends.

Financial Highlights

	31 Mar 2023	31 Mar 2022
Balance Sheet		
Cash, cash equivalents and cash held by brokers	**£16.5m**	£52.6m
Net assets	**£337.0m**	£343.9m

	31 Mar 2023	31 Mar 2022
Profit and Loss		
Operating income	**£30.7m**	£32.4m
Net profit	**£20.6m**	£24.6m

The complete set of the Balance Sheet and Profit and Loss items are presented in the Company's financial statements.

Further Information

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

Annual Report and Accounts 2023

Business and Strategy Review

In this section

Student accommodation development in Brent Cross, London

BUSINESS AND STRATEGY REVIEW

Strategic Framework and Performance Highlights

Senior real estate lending remains a high conviction theme

Objectives

1 Provide investors with a diversified portfolio of real estate credit investments

2 Deliver a stable quarterly dividend with minimal volatility

3 Exploit opportunities in the real estate market

4 Position the Company to grow through opportunities the Investment Manager is delivering

Performance Highlights

Newly Committed in year
£155.2m
(as at 31 March 2023)

Return to Shareholders
£27.5m
(as at 31 March 2023)

Investment Portfolio
£400.7m
(as at 31 March 2023)

Portfolio of hotels/spa resorts across the UK

Performance Highlights

Progress in Year Ended 31 March 2023

1

- RECI's investment portfolio is a diversified book of 53 positions in real estate loans and bonds.
- Over the course of the last financial year, RECI has committed £155.2 million to eight new deals, and funded £158.6 million into new and existing deals during the year.

2

- Paid out dividends of 3 pence per share each quarter, 12 pence over the year.
- A total of £27.5 million returned to our Shareholders.

3

- Investment book has grown to £400.7 million (gross of leverage) as at 31 March 2023 which is spread across 53 positions with a weighted average levered gross yield of 11.1% and an average loan-to-value of 59.2%.
- All repayments were received on time as anticipated.
- RECI also received cash repayments and interest of £159.0 million in this year.

4

- RECI has continued its migration towards an all-senior loan book.
- Progress with measures to position the Company to achieve its longer-term aim of growing the Company.
- Protection and maintenance of dividends by improved returns on the loans and re-investment.
- Continue to de-risk and optimise funding lines.

BUSINESS AND STRATEGY REVIEW

Strategic Report

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

Investment Objective and Investment Policy

The Investment Objective and Investment Policy are set out on page 6, along with a further paragraph "About the Company" explaining in more detail the corporate structure and listing of the Company's shares.

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

Current and Future Development

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

Performance

A review of performance is contained in the Key Performance Indicators ("KPIs") and financial highlights section and the Investment Manager's Report.

A number of performance measures are considered by the Board and the Investment Manager in assessing the Company's success in achieving its objectives and considering its progress and performance. The KPIs are shown on page 11.

Duties and Responsibilities

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

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

The Board is responsible to the Shareholders for the overall management and strategy of the Company but has delegated day-to-day operations to the Investment Manager and Citco Fund Services (Guernsey) Limited ("Citco" or the "Administrator"), while reserving the powers of decision making relating to the determination of the Investment Policy, corporate structure and the management of the share capital of the Company.

The Board is further responsible for financial reporting and risk management and determining the dividend and accounting policies. While the Investment Manager manages the portfolio of the Company, the Board retains responsibility for overseeing the Investment Manager and ensuring the establishment and ongoing operation of a sound system of internal control. Any material contracts and those not in the normal course of business are also subject to approval by the Board.

The Board is also responsible for its own structure, size and effectiveness, with the delegation of some duties to Committees made up of its members. The Board retains control of the Committees and requires that they report to the full Board on a regular basis, providing their findings and recommendations. The Nomination Committee is responsible for considering the size, structure and composition of the Board; retirements and appointments of additional and replacement Directors and, as appropriate, makes recommendations to the Board. The Remuneration Committee determines Directors' remuneration and sets the Company's remuneration policy.

The Board performs a formal and rigorous review of its own performance and continually scrutinises its independence and transparency.

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

Long-term Viability

The Directors have assessed the prospects of the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Board has chosen a period of three years for the following reasons:

(i) The Company's planning horizon covers a three-year period;
(ii) The next continuation vote is due in September 2025; and
(iii) The weighted average life of the bond portfolio is 2.5 years as at 31 March 2023, the usual term of a new loan at origination is between 3 to 5 years, so the majority of the assets could be expected to be realised in a three-year period, or shortly thereafter.

The Board conducts an annual review, stress testing the Company's cash flows arising from the loan and bond portfolio over a three-year period, including interest received and proceeds from realisations, short-term finance obligations of the Company and dividend cover. Further considerations are the inherent sensitivities within the loan and bond portfolios and their impact on the cash flows.

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

The Board routinely conducts three-year reviews, stress testing the performance against a number of adverse scenarios, such as the fair value write down of the investments, or reduced cash flows from the investment portfolio. The fair value stress test was considered relevant to factor in any potential events affecting the underlying assets or credit concerns about the borrowers which potentially could impact on the fair value. The reduced cash flow stress test was considered relevant in the event of potential defaults arising on the loan portfolio and the inability to recover the interest or principal back in full.

In the current environment, the Company has also considered the future of its Investment Manager when looking at its own viability, and given the size of the Investment Manager's platform away from the Company and the private capital it manages in numerous other real estate debt funds, of which the combined total is approximately £5 billion AUM, the Investment Manager is expected to be able to continue to manage the Company for the foreseeable future.

Further consideration has been given with respect to the current market environment, including the ongoing economic impacts of relevant geopolitical and macro economic risks: including increased interest rates, heightened inflation, supply chain disruption, the continuing impact of the Ukraine conflict; and the effects of climate change and cyber security. The Investment Manager has prepared sensitivity analyses including various stress scenarios. An evaluation continues to be performed for each of the positions in light of these potential impacts on operating models and valuations and hence recovery prospects for certain individual positions. The output of this analysis was used to i) report fair value movements, and ii) update all the cash and income forecasting for the portfolio. The Investment Manager continues to perform a granular analysis of the future liquidity profile of the Company. A detailed cash flow profile of each investment was completed, incorporating the probability of likely delays to repayments, other stress tests (and additional cash needs).

Even taking these stress scenarios into account and bearing in mind the leverage and liquidity of the bond portfolio, the Company is expected to be able to meet its liabilities over the three-year period.

Risk Management

It is the role of the Board of Directors to review and manage all risks associated with the Company, mitigating these either directly or through the delegation of certain responsibilities to the Audit and Risk Committee and Investment Manager. Additionally the Board seeks to identify emerging risks and responds to them as they evolve.

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

Long-term Strategic Risk

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

The Board monitors investment strategy and performance on an ongoing basis and regularly reviews the Investment Objective and Investment Policy in light of prevailing investor sentiment to ensure the Company remains attractive to its Shareholders. The Board is committed to promoting the Company with the long-term aim of its share price trading at or around NAV and will consider all options to achieve this. This may include consideration, as part of the ongoing cash allocation policy, of implementing share buy-backs to enhance NAV per share and potentially reduce any discount to NAV. This will only be done when cash resources permit and in the context of prevailing market conditions and the one-time potential NAV uplift of a buy-back compared with the potential repeatable long term benefit of investments in attractive high yielding opportunities to enhance RECI's returns. There can be no certainty that buy-backs will be implemented and/or that an enhancement to share price would be achieved. No buybacks were made during the year ended 31 March 2023.

Strategic Report (continued)

The Company has the authority to make market purchases of fully paid shares of up to 14.99% of the shares of no par value in issue, and renewal of this authority will be sought from Shareholders at the AGM in September 2023 and at each subsequent AGM, or earlier at an Extraordinary General Meeting if the Directors consider it appropriate.

Target Portfolio Returns and Dividend Risk

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

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

There may be economic circumstances and wider market considerations that arise, that mean the Investment Manager and Board deem it appropriate to maintain higher levels of cash reserves.

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

Valuation Risk

The valuation and performance of the Company's investments that comprise its portfolio of real estate debt instruments are the key value drivers for the Company's NAV and interest income. Judgements over fair value estimates could significantly affect these key performance indicators.

The Company categorises its financial assets and liabilities in accordance with IFRS 9 and establishes fair value utilising the methodology in accordance with IFRS 13, as set out in Note 15(d) to the financial statements. Further information on valuation is detailed in the Audit and Risk Committee Report on page 56 and Note 2 to the Financial Statements.

Credit Risk

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

Market Bond Portfolio – The Company is subject to the risk that issuers of asset backed securities in which it invests may default on their obligations and that certain events may occur which have an immediate and significant adverse effect on the value of such instruments. There can be no assurance that an issuer of an instrument in which the Company invests will not default or that an event which has an immediate and significant adverse effect on the value of such instruments will not occur, and that the Company will not sustain a loss on the transaction as a result.

The Company seeks to mitigate this risk by monitoring its portfolio of investments, reviewing the underlying credit quality of its counterparties, on a monthly basis. In addition to the underlying credit quality of borrowers the weighted average life of the assets as at 31 March 2023 is 2.5 years, which is an additional mitigant regarding any loss in value due to changes in borrowers circumstances over the long term.

Bilateral Loan and Bond Portfolio – The Company is subject to the risk that the underlying borrowers to the loans and bonds in which it invests may default on their obligations and that certain events may occur which have an immediate and significant adverse effect on the value of such instruments. Any loan and bond may become a defaulted obligation for a variety of reasons, including non-payment of principal or interest, as well as covenant violations by the borrower in respect of the underlying loan and bond documents. In the event of any default on the Company's investment in a loan and bond by the borrower, the Company will bear a risk of loss of principal and accrued interest on the loan and bond, which could have a material adverse effect on the Company's investment. There can be no assurance that a borrower will not default, that there will not be an issue with the underlying real estate security or that an event which has an immediate and significant adverse effect on the value of these loans and bonds will not occur, and that the Company will not sustain a loss on the transaction as a result. The Company seeks to mitigate this risk by performing due diligence and monitoring its portfolio of investments, reviewing the underlying credit quality of its borrowers, performance of the underlying asset, and loan and bond covenant compliance against financial information received and the performance of the security, on a quarterly basis.

Market Risk

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

The Company's strategy on the management of market risk is driven by the Company's Investment Objective as detailed on page 6 and in Note 1 to the financial statements.

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

Interest Rate Risk

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

The Company invests in both direct real estate loans and floating rate real estate debt securities, which include mortgage backed securities ("MBS").

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

In addition to the underlying credit quality of borrowers, the weighted average life of the assets as at 31 March 2023 is 2.5 years, which is an additional mitigant regarding any losses in value due to changes in borrowers' circumstances over the long term.

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

Currency Risk

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

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

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities on a timely basis. The Company's liquidity risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures detailed in Note 15(c) to the financial statements. Where needed, the Investment Manager will seek to liquidate positions to increase cash or reduce leverage.

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

Furthermore, where the Company acquires investments for which there is no readily available market, the Company's ability to deal in any such investment or obtain reliable information about the value of such investment or risks to which such investment is exposed may be limited.

For further information on risks, please refer to Note 15 to the financial statements.

Other Risk Factors

The Board gives consideration to and, together with Cheyne, monitors other relevant risks, in addition to the ones highlighted above; this includes a consideration of any relevant Emerging Risks as they evolve. These currently include: geopolitical and macro economic risks: including increased interest rates, heightened inflation, supply chain disruption, the continuing impact of the Ukraine conflict; and the effects of climate change and cyber security. Given the short weighted average life of the assets, and the continual replacement of assets in the portfolio from the wider Investment Manager's pipeline, such macro risks are worked through in the life of the assets. Any issues that might potentially impact the value of the investments, including impacts to supply chains, are taken into account in the fair value. An evaluation of each of the Company's positions in light of these risks is continually monitored.

BUSINESS AND STRATEGY REVIEW

Investment Manager's Report

RECI is evolving to capitalise on the scalable opportunity set

Ravi Stickney
Portfolio Manager

Managing Partner & CIO of
Cheyne Real Estate

Market Review

Real Asset Valuations: A painful transition to the new normal for some

The past year has brought about the recognition that the era of low interest rates is gone for good.

A painful period of high inflation needed (and received) sustained higher interest rates. That is set to continue to mitigate the risk of an entrenched inflationary spiral in economies. A successful policy response to curtail entrenched high inflation will not, in our view, lead to rates returning to the very low base that western economies have enjoyed for more than a decade. Normalised rates that spur productivity and remove excess from the markets are most likely to be the basis for the new normal.

This presages a transitory period of higher rates, normalising at a level that balances the need for productive growth and the curtailment of excess.

For the real estate asset class, normalised long-term rates are a key factor in the determination of valuations. The long period of low rates brought about the assumption that all assets (even those that prove to have little basis for demand) would rise as the search for yield drove demand. Normalising rates will weed out the weaker assets (those that have little basis for demand) but will also spur demand for the best in class assets that are much needed for future growth of our societies. These assets will help deliver not just growth in our economies, but also promote the very best outcomes for the environment and social cohesion.

There are immediate and longer-term implications for asset values that consequently arise:

- Assets that do not present the best environmental or social credentials will give way to assets that do
- Demand will be driven for assets that address the shifts in the way we live and work. The demand for assets that do not address these will decline sharply as they are no longer supported by low interest rates
- Values of all asset classes (regardless of demand strength) will stabilise at lower levels, simply due to higher yield expectations, before resuming their growth.

European Real Estate Debt Markets: A renewed cycle of retrenchment

European real estate debt markets (unlike their counterparts in North America) were already subdued coming into this last year from a mix of increasingly onerous regulatory pressure and weak capital ratios.

The declining valuations in real assets have compounded that issue, as has the latest bout of bank capital uncertainty brought about by the collapse of Silicon Valley Bank and Credit Suisse, and the realisation that the perceived balance sheet strength of the largest banks may need to be subject to a re-evaluation of their strongest assets (long-term government debt). As Global and European banks recognise the deficits arising from the (potentially permanent) diminution in values of these long-dated securities, it is very likely that the already low appetite for capital intensive real estate lending will decline.

We are already seeing that retrenchment not just in the UK, but across Europe.

Implications for the funding needs of Real Assets

The combination of the above declining values and retrenching bank lending markets points to a prolonged concern about the viable refinancing capability of all real assets, including those that demonstrate the most stable income profile.

That financing "gap" is now becoming well understood with several respected publications attempting to quantify the size of that "gap". Whilst that gap is indeed significant, what is more pertinent is that there is a scarcity of capable capital (especially so in Europe) to provide any of that financing.

As banks retreat, the alternative lending market (of which RECI and its manager, Cheyne Real Estate, have been leading participants for more than 14 years now) will continue to move to take their place. However, the degree of expertise and knowledge, and quantum of capital, needed to effectively lend to the complex real estate asset class will mean that the European based alternative lending community will take time to bridge that gap.

The declining valuations and eroding bank markets do pose issues for incumbent lenders who have potentially overstretched on the LTV or focused on the higher risk mezzanine part of the capital structure (particularly mezzanine on core income assets valued off low yields).

Performance Review

Transition to conservative senior lending puts the credit book in a sound position

RECI's evolution away from mezzanine and higher LTV lending and core assets since Brexit in 2016 has put it in a very strong position to mitigate this period of transition. Its gradual shift to senior loans (90.3% of the portfolio at 31 March 2023) has been deliberate in the aftermath of Brexit. This shift mirrors the shift in the wider Cheyne Real Estate platform, which now manages in excess of £4.1 billion in investor capital, with a majority of that in the senior lending space.

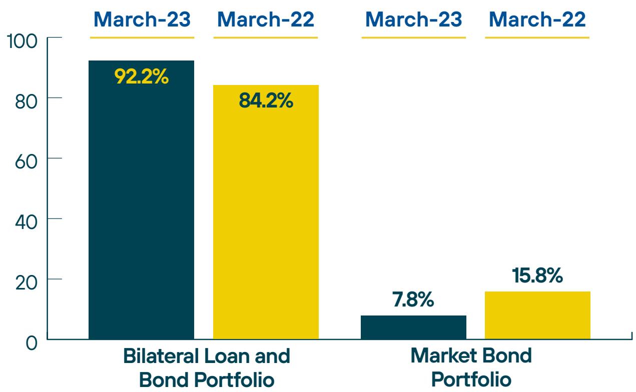
RECI has evolved its lending to focus on the following:

- Senior loans with a low-risk basis
- Absolute governance and strong covenants
- Lending to the larger and more capable sponsors with robust business plans and deep financial resources committed
- Lending to asset classes that provide for the highest degree of sustainability (from an environmental and social standpoint) and which also resonate with the changes in demand and supply.

With that evolution, the highly diverse lending book RECI has today remains resilient.

Portfolio Breakdown by Investment Area

(by Commitment Value for Bilateral Loans & Bonds, and Fair Value for Market Bonds)



Funding the Deals

Balance Sheet management

Structurally, RECI has married prudent management of its balance sheet with the need for efficiency in its capital usage.

Short-term debt (in the form of rolling REPO lines), has gradually been replaced with term matched funding lines and also asset backed funding. Whilst more costly, these have provided stability to the balance sheet through the various periods of stress.

RECI's financial leverage position as at 31 March 2023 is 23.8% of NAV against a maximum permitted financial leverage of 40%. RECI's financial leverage (also referred to as recourse leverage) comprises: (a) the flexible term repurchase agreements (REPO) on its liquid bonds (the WA cost of this financing was 5.9% as at 31 March 2023); and (b) any partial recourse commitment that may be provided to structured financing counterparties.

Investment Manager's Report (continued)

	Balance Sheet/ Company Leverage[1]	Contingent Liabilities[2]	Cash including cash collateral at broker	Net Effective leverage	Asset Level Structured Funding
£ Amount	£80.2m	£2.9m	£16.5m	£63.7m	£20.6m
% of NAV	23.8%	0.9%	5.2%	19.4%	6.1%
WA cost of finance	5.9%		–	–	7.7%
Number of positions	16				6

1. RECI has a limit on balance sheet leverage (i.e. Financial Leverage) of 40% of NAV, as set out in its borrowing policy.
2. Contingent liabilities include any partial recourse commitment provided to asset level structured finance counterparties.

Funding Summary

We believe that the long-term strategy for the Company should be a mix of structured term funding on its senior loan book and to a lesser extent, where relevant, with REPO financing on its remaining liquid bond book, thereby maintaining a conservative level of recourse leverage supported by strong assets and liquid instruments.

Dividend Cover and Promotion

Since 2013, RECI has maintained a dividend on its NAV of 7% or better. The overarching ambitions of RECI are to provide investors with stability, transparency and dividend consistency. On the latter, the aim has been to have the dividends covered from net income alone (i.e., income from the credit book and without having to bear regard to mark to market gains or losses). That ambition has been broadly achieved now with the move into higher yielding senior loans and to a more efficient funding profile.

The RECI portfolio delivered a net profit of 6.0% on NAV as at 31 March 2023. During the year, the Company paid 12 pence per share in dividends, which was £27.5m (or 8.0% on NAV as at 31 March 2023). Notwithstanding the MTM losses on the bond portfolio, due to recent global bond volatility, the dividend covered from net interest income alone was 6.9%.

The credit strength of the portfolio is good, but the market bond portfolio does create some price volatility for the YTD return. Therefore, it is the Manager's intent to accelerate its path towards rotation into a focus on senior lending and to exit the market bond positions in a timely manner.

Annual Dividend for the Year

12.0 pence

Dividend Yield (on share price)

9.0%

Looking Forward

All of the above puts the Company on a sound asset and liability footing and also positions it well for its continued delivery of an attractive, long-term dividend stream for investors.

The priorities of the Company now are to address the following:

1) To reduce the volatility on the NAV that arises from the mark to market on its listed bond portfolio. Whilst the listed bonds do present an attractive investment proposition in their own right, we see the listed capital markets as remaining highly volatile for the next few years, which negates the absolute return upside on this bond portfolio
2) Continue to move the overall portfolio into relatively short duration senior loans, with the ambition for RECI to become a "pure play" senior lender, with no remaining mezzanine or market bond positions
3) Advance its financial strength further with term matched financing
4) To continue to improve the dividend cover from net income
5) Cheyne Real Estate has continually expanded and improved on its investor engagement and presentations. The current regime of quarterly updates have been well received by investors for its transparency and accessibility. We would like to continue these efforts to improve engagement with investors.

Growth to capture the significantly higher rates of return

Cheyne's Real Estate business has seen substantial growth in its senior lending book and has moved to capture a larger share of the market with localised offices across Europe and by growing the already well-established large team dedicated to real estate credit origination and management.

We have raised £2.5 billion from 30+ investors across the latest vintages of our private vehicles with £2.0 billion committed over 23 deals in the first quarter of 2023. Cheyne's immediate pipeline of deals stands at £2.0 billion with a weighted average LTV of 59% and unlevered IRR of 11.7%.

RECI needs to be in a position to continue to grow with the wider Cheyne Real Estate business to capture the significantly higher rates of return for senior loans available today.

To that end, it is our hope that the conditions return to allow RECI to resume its path to growth. We are hopeful that the continued proven performance, attractive dividends and extensive investor engagement will see the share price close its current discount to the NAV during this coming year, and allow RECI to participate fully in Cheyne's attractive deal pipeline and wider real estate business.

Portfolio Overview

Portfolio Highlights

New Commitments

£155.2m

Deals Funded

£158.6m

Repayments and Interest

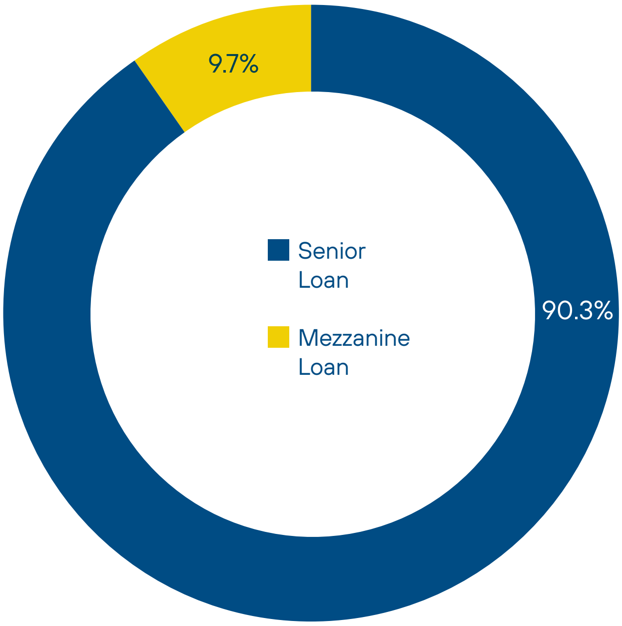
£159.0m

Over the course of RECI's financial year, the portfolio has continued its migration towards an all-senior loan book. As at 31 March 2023, senior loans represented 90.3% of the portfolio with a weighted average LTV of 59.2%. The Top 10 positions are 100% senior loans and new origination is entirely senior.

RECI also received cash repayments and interest of £159.0 million in this year, compared with £132.2 million in the year ended 31 March 2022.

Senior vs Mezzanine Loans

(by Commitment Value for Bilateral Loans & Bonds, and Fair Value for Market Bonds)



Commitments and Funding

During the year, the Company made £155.2 million of commitments to eight new deals, and funded £158.6 million into new and existing deals during the year, compared to £113.1 million in the previous year.

Of the eight new deals committed to in the year, the split of fixed and floating rates was as follows:

Split of New Deals by Commitment Value

Fixed	72,955,108	47.0%
Floating	82,235,813	53.0%
	£155,190,921	

Investment Manager's Report (continued)

Portfolio Composition

Number of Positions

53

Total Committed Capital

£572.0m

Drawn Value inc Interest (gross of leverage)

£400.7m

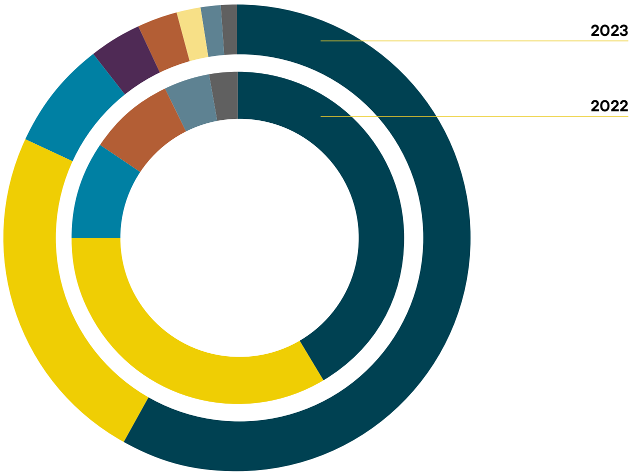
Drawn Value (net of leverage)

£319.4m

RECI's investment portfolio, a diversified book of 53 positions in real estate bonds and loans, was valued at £400.7 million per FS including accrued interest as at 31 March 2023, up from £394.3 million as at 31 March 2022. The portfolio had a weighted average levered yield of 11.1% and an average loan to value of 59.2% as at 31 March 2023.

Portfolio by Geography

Breakdown by Total Committed Capital including PIK



	% Allocation Mar-23	Since Mar-22
United Kingdom	**58.3%**	13.7%
France	**23.8%**	(11.1)%
Spain	**7.5%**	(3.1)%
Finland	**3.7%**	0.0%
Portugal	**2.8%**	2.8%
Ireland	**1.6%**	0.0%
Italy	**1.2%**	(1.4)%
Germany	**1.1%**	(0.9)%

Top 10 Positions

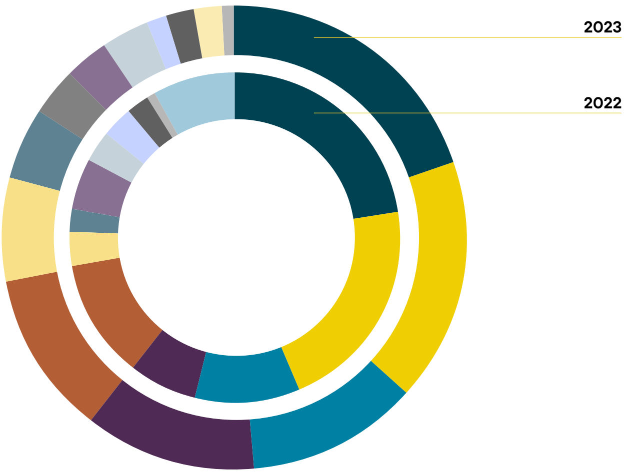
Top 10 Positions[1] as at 31 March 2023

	Deal Description	Commitment	LTV	Investment Strategy	Sector	Country	Asset Type
1	UK Mixed-Use Portfolio, Predominantly Office/Residential	£83.0m	48%	Senior Loan	Mixed-Use	United Kingdom	Core+
2	London Student Accommodation	£45.2m	58%	Senior Loan	Student Accommodation	United Kingdom	Development
3	London Residential Led Mixed-Use Scheme	£32.7m	67%	Senior Loan	Residential	United Kingdom	Development
4	Office development in Saint Ouen, Paris	£30.9m	58%	Senior Loan	Office	France	Development
5	London Office	£22.8m	59%	Senior Loan	Office	United Kingdom	Core
6	Spanish Villas	£22.4m	49%	Senior Loan	Residential	Spain	Development
7	France Housebuilder Portfolio	£20.6m	36%	Senior Loan	Housebuilder	France	Development
8	Finland Hotel	£20.4m	65%	Senior Loan	Hotel	Finland	Development
9	South of France Hotel	£19.9m	80%	Senior Loan	Hotel	France	Development
10	Luxury Assisting Living Units in London	£19.7m	60%	Senior Loan	Assisted Living	United Kingdom	Core+

[1] Based on total commitment of bonds and loans.

Portfolio by Sector

Breakdown by Total Committed Capital including PIK



		% Allocation Mar-23	% Allocation Mar-22
	Hotel	19.8%	22.6%
	Mixed-Use	17.1%	21.2%
	Student Accommodation	11.9%	10.2%
	Residential	11.8%	6.7%
	Office	11.6%	11.7%
	Co-Living	7.0%	3.2%
	Leisure	5.0%	2.4%
	Later Living	3.3%	0.0%
	Housebuilder	3.3%	4.8%
	Assisted Living	3.2%	3.2%
	Retail	1.3%	3.1%
	Logistics	2.0%	2.2%
	Land	1.9%	0.0%
	Industrial	0.8%	0.8%
	Healthcare	0.0%	7.9%

Bilateral Loan and Bond Portfolio

The drawn balance of the bilateral loan and bond portfolio, including accrued interest, had increased from £295.9 million as at 31 March 2022 to £351.5 million as at 31 March 2023. The average loan portfolio LTV exposure as at 31 March 2023 was 60.9%. The portfolio continues to provide attractive risk-adjusted returns with a weighted average unlevered yield of 9.5% per annum, before any back-end fees, profit share or equity element contributions are taken into account.

Bilateral Loan and Bond Portfolio Summary as at 31 March 2023

Number of loans	34
Drawn Value (£ millions)	351.5
Undrawn Loan Commitments (£ millions)	168.3
Weighted average yield of portfolio	9.5%
Weighted average yield of portfolio (levered)	10.2%
Weighted average LTV of portfolio	60.9%
Weighted average life of portfolio (years)	1.9

Market Bond Portfolio

As at 31 March 2023, the market bond portfolio of 19 bonds (excluding the self-originated bonds) was valued at £49.2 million including accrued interest, compared to £98.5 million as at 31 March 2022.

The remaining bond portfolio:

- Is characterised by a short duration (2.5 years) and high coupon
- Has a weighted average unlevered yield as at 31 March 2023 of 12.6%, and the weighted average levered yield of the bond portfolio was 34.3%.

As described above, the Investment Manager has accelerated its rotation of the portfolio from market CMBS to senior loans.

In the year ended 31 March 2023, £31.4 million notional of bonds were sold at a slight discount to carrying value and a further £16.4 million notional sold the following month, leaving a bond portfolio of 15 positions and a notional of £41.5m, representing just 8.7% of the portfolio as at 30 April 2023.

Market Bond Portfolio Summary as at 31 March 2023

Number of bonds	19
Fair Value (£ millions)	49.2
Weighted average yield of portfolio	12.6%
Weighted average yield of portfolio (levered)	34.3%
Weighted average LTV of portfolio	48.8%
Weighted average life of portfolio (years)	2.5

Investment Manager's Report (continued)

Environmental, Social and Governance (ESG)

Cheyne Capital and its Real Estate team remain committed to operating its business in a progressively responsible manner, achieved through the incorporation of high standards of governance and investment stewardship. Cheyne aims for the consideration, assessment and integration of Environmental, Social and Governance (ESG) factors to be a core element of analysis undertaken in its investment processes.

In the last year, Cheyne has engaged with an external Real Estate ESG specialist consultant to assist with developing and provide assurance on a comprehensive scorecard-based approach. The ultimate aim is to align our principles with industry recognised benchmark standards to identify a minimum ESG standard we will need across our portfolio. The move to a more qualitative system will significantly help us identify and understand ESG-based risks in our portfolio more easily, and not only assist us with lowering risk and increasing quality but will also help us collate and measure the data required to track progress in what is a fast moving but increasing important area of focus. We are currently in the implementation phase of the project, which includes training for the Real Estate team and wider Cheyne employees. Further information can be found in the Sustainability Report on pages 32-36.

Outlook

Scaling the Company

UK and Western European Real Estate is transitioning to a new "normal" and RECI is poised to benefit. We believe it is in the Company's best interests to ensure the Company continues to be ready to respond to the new opportunities we are seeing. We will continue with our strategy of divesting the bonds in favour of the higher returning senior loans which should in turn provide more stability to RECI's NAV and share price.

Given the unprecedented and scalable opportunity, and the appetite shown from investors by the amount raised by Cheyne's private funds over the last two to three years, it remains the ambition for RECI to echo that growth in the public markets.

Cheyne Capital Management (UK) LLP
21 June 2023

Portfolio of hotels/spa resorts across the UK

BUSINESS AND STRATEGY REVIEW

Stakeholder Engagement

The Board is committed to promoting the long-term success of the Company whilst conducting business in a fair, ethical and transparent manner.

Whilst directly applicable only to companies incorporated in the UK, the Board recognises the intention of the AIC Code that matters set out in section 172 of the Companies Act 2006 are reported on. The Board strives to understand the views of the Company's key stakeholders and to take these into consideration as part of its discussions and decision-making process. As an investment company, the Company does not have any employees and conducts its core activities through third-party service providers.

Each provider has an established track record and through regulatory oversight is required to have in place suitable policies and procedures to ensure they maintain high standards of business conduct, treat their own stakeholders fairly, and employ corporate governance best practice. The Company strongly believes that fostering healthy and constructive relationships with its broad range of stakeholders should result in increased Shareholder value over the long term.

Portfolio of hotels/spa resorts across the UK

Portfolio of hotels/spa resorts across the UK

Investors

Why they are important

The Board believes that the maintenance of good relations with Shareholders is important for the long-term prospects of the Company and seeks engagement with investors.

How the Board engages

The Directors and Cheyne are committed to providing detail and transparency regarding the Company's portfolio and investment strategy, allowing all investors to focus upon RECI and its merits and opportunities, notwithstanding the broader market environment. Where appropriate, the Chairman and other Directors are available for discussion about governance and strategy with major Shareholders and the Chairman ensures communication of Shareholders' views to the Board. The Board receives feedback on the views of Shareholders from Liberum Capital Limited (the "Corporate Broker") and the Investment Manager, and Shareholders are welcome to contact the Chairman or any Director at any time via the Company Secretary.

Key activities during the year

AGM

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

Publications

The Company reports to Shareholders with both monthly fact sheets and quarterly update presentations, along with the Annual and interim reports.

These are available on the Company's website: **realestatecreditinvestments.com**

In accordance with the EU Packaged Retail and Insurance-based Investment Products Directive on 1 January 2018, a Key Information Document is available on the Company's website.

Events

Throughout the last financial year, the Investment Manager continued to provide a detailed and comprehensive review of RECI's portfolio as part of our programme of enhanced investor communication. A number of online events and meetings were held to maintain a regular dialogue with our Shareholders and potential new investors. In addition, the Board continues to work with its service providers to enhance the Company's website and fact sheet.

Stakeholder Engagement (continued)

Community and Environment

Why they are important

In carrying out its activities, the Company aims to conduct itself responsibly, ethically and fairly. The Directors recognise the importance of environmental, social and governance factors, including climate change, when pursuing the Company's Investment Objective and in the selection of the service providers and advisers the Company works with. The Board is alive to the magnitude of the evolving ESG landscape. It has determined that ESG considerations, and their communication, must be fundamental to all its operations and has consequently nominated an ESG lead to co-ordinate and drive internal discussion. The Board, in conjunction with the Investment Manager, continues to closely monitor upcoming regulation and any developments in this area.

How the Board engages

Reflecting this, the Board has asked Colleen McHugh to take up the role of "ESG Lead" and work closely with Cheyne in developing and implementing RECI's ESG approach. Pages 32-36 of the Sustainability Report provide further information about the Company's and the Manager's approach to ESG matters.

Key activities during the year

The Investment Manager has now engaged an external Real Estate ESG specialist consultant to assist with developing and provide assurance on a comprehensive scorecard-based approach using a borrower questionnaire for each deal. The questions in Cheyne's borrower questionnaire have been grouped and weighted to enable a proprietary 0-5 scoring against the following Target Characteristics:

- E1 Commitment to Environmental Risk Monitoring
- E2 Contribution to Positive Environmental Action
- S1 Supporting Social Wellbeing

Qualifying Investments achieve a score of 3 or higher on at least one of the Target Characteristics.

Cheyne will specify that a minimum 50% of the portfolio will comprise Qualifying Investments (based on investment commitments at each calendar year end). In practice, the Investment Manager expects the portfolio average scores to be higher.

The ultimate aim is to align the Investment Manager's principles with industry recognised benchmark standards to identify a minimum ESG standard needed across RECI's portfolio. The move to a more qualitative system will significantly help the Investment Manager identify and understand ESG based risks in its portfolio more easily, and not only assist with lowering risk and increasing quality, but will also help collate and measure the data required to track progress in what is a fast moving but increasing important area of focus. The Investment Manager is currently in the implementation phase of the project, which will include training for the Real Estate team and wider Cheyne employees.

Additionally, the Company has decided to purchase carbon offsets for all flights that may be required by the Directors and the Investment Manager, thereby facilitating a carbon neutral position, as pertains to travel. The Company recognises that this action is the first step in an evolving climate strategy, that should encompass carbon removal as well as carbon offsets.

Further efforts to reduce its carbon footprint, constitute electronic only communications to all Shareholders on the share registrar. Accordingly, the Company's website is now the default method of communication for Shareholder publications. Currently approximately 89% of the Company's Shareholder register receive documents and other communications electronically.

Service Providers

Why they are important

Effective relationships with service providers help the Company achieve its objectives, including its investment objectives and to operate in an efficient and compliant manner.

Commercial service providers: Investment Manager, Administration agent, Corporate broker, Legal advisers, Auditor and Key service providers retained, providing continuity of service and familiarity with the objectives of the Company.

The Audit and Risk Committee receives information from the Company's service providers with the majority of information being directly sourced from the Company Secretary, Administrator, the Investment Manager and the external auditor.

How the board engages

The Management Engagement Committee meets at least once a year for the purpose of evaluating the performance of the Company's service providers, the review of service agreements and service level statements and the level and method of their remuneration. The Audit and Risk Committee considers the nature, scope and results of the auditor's work and reviews its performance annually prior to providing a recommendation to the Board on the reappointment or removal of the auditor.

Key activities during the year

The Board has detailed and constructive discussions with some service providers regarding service provision and fees. Details of the responsibilities of the Investment Manager, Investment Advisor, Link Asset Services (Registrar), and Aztec Financial Services (Guernsey) Ltd (Company Secretary) can be found on page 111. Other service providers include our corporate broker, lenders, auditors, counsel and other advisors.


Residential development in Wembley, London

BUSINESS AND STRATEGY REVIEW

Sustainability Report

RECI's Approach To Sustainability

RECI aims to operate in a responsible and sustainable manner over the long term. The Company prioritises continuous enhancement of ESG credentials across the portfolio, and its success is aligned with the delivery of positive outcomes for all its stakeholders, not least the communities in which the buildings that it finances, live, work and enjoy.

The Company's main activities are carried out by Cheyne, the Investment Manager, and as such the Company adopts the Investment Manager's policy and approach to sustainability and integrating ESG principles.

The Investment Manager was one of the initial signatories to the Standards Board for Alternative Investments (formerly known as the Hedge Fund Standards Board) and is a signatory to the United Nations-supported Principles for Responsible Investment ("PRI"). In its most recent assessment, Cheyne scored 4 stars out of 5 in all modules bar one. Cheyne received a score of 68% (4 stars out of 5) in the Investment and Stewardship Policy module (where the PRI median was 62%). Over 40% of its sub-indicators in this module received a perfect score.

Several standards and codes have received prominence as metrics for investment managers. These include, for example, the UN Principles for Responsible Investment (UN PRI), the Task Force on Climate-related Financial Disclosures (TCFD), the Financial Reporting Council's Stewardship Code, and the FCA's Sustainability Disclosure Requirements (SDR).

The Investment Manager's ESG Implementation Forum oversees both the Responsible Investment and ESG policies to ensure that it continuously improves its ESG standards. Its Responsible Investment policy is already incorporated into its investment process.

Cheyne Real Estate Core ESG Principles

VALUE ENHANCING | RISK REDUCING | ACTIVELY ENGAGED

Cheyne believes that an overarching focus on ESG considerations is entirely aligned with our investment goals.

- Sustainability credentials directly support real estate valuations
- Sustainable, energy efficient buildings are more valuable to asset owners by:
  – Supporting higher rents, lower vacancies and lower operating costs
  – Supporting exit valuations.

ESG considerations in our investments are not merely a passive analysis but rather the opportunity to effect positive change.

- Cheyne Real Estate is a key stakeholder in our investments, frequently the sole lender to a real estate asset
- This provides the ability to directly engage with all new sponsors to help drive the ESG agenda directly and seek to address any deficiencies and opportunities to improve sustainability credentials of the asset
- This is particularly relevant in development, value-add and transitional financing, which represents a core focus for Cheyne Real Estate.

Cheyne's Partnership with Evora Global

ESG considerations have formed a key part of Cheyne's approach to investments in real estate for many years. In February 2022, Cheyne partnered with Evora, widely recognised as one of the leading sustainability consultancy specialists to the real estate industry, to formalise its approach to the incorporation of sustainability considerations into the investment process.

The ongoing partnership with a leading external specialist is expected to enable Cheyne to remain at the forefront of the rapidly evolving ESG agenda and provide an independent checkpoint to challenge their ESG investment process and ensure robustness.

Cheyne has taken a staged approach in developing its ESG strategy, with its philosophy drawing on the following four drivers:

1. The Greater Good
2. Value Enhancement/Risk Management
3. Regulation
4. Investor Expectations

Cheyne has worked with Evora to prepare customised ESG questionnaires for each of the real estate asset types the Cheyne real estate lending funds finance: standing, refurbishment and development assets, together with a borrower questionnaire. An ESG data template has also been prepared (one template for all asset types).

The questionnaires seek to quantify each investment's performance against key ESG criteria, utilising a consistent approach to enable aggregation across the assets within the relevant Cheyne fund. The score is set at a stringent enough level to effect a conversation about enhancing the ESG characteristics if they are not up to Cheyne's standards.

The questionnaires are used by Cheyne's analysts to undertake a broad based ESG evaluation of a proposed investment – focusing on both the sponsor and the asset itself.

Standards and Guidance

A range of external guidance and best practice standards have been used to inform the development of the ESG questionnaires, including:

- Global Real Estate Sustainability Benchmark (GRESB)
- Building Research Establishment Environmental Assessment Method (BREEAM)
- EU Taxonomy
- Sustainable Finance Disclosure Regulations (SFDR)
- Minimum Energy Efficiency Standards (MEES)

Incorporating Sustainability into the Investment Process

Due Diligence

RECI is primarily invested in real estate loans and other real estate-based debt investments. Key factors taken into consideration, where appropriate and possible, are best-in-class environmental, design and construction standards, a focus on Building Research Establishment Environmental Assessment "BREEAM" ratings, governance rights and engagement with sponsors. Sustainability risks are considered during the Investment Manager's initial due diligence in respect of an investment opportunity, including as part of the external valuations of the real estate being financed (such valuations typically consider any environmental and/or social risks) and early engagement with potential borrowers or issuers through a data gathering exercise.

The Investment Manager's analysts also compile reports using data gathered from their own due diligence and external reports, environmental performance indicators (including BREEAM ratings and Energy Performance Certificates) and investigations (including through the use of forensic accountants and other third-party consultants). This information is included in the investment committee memorandum, which is considered by the Investment Manager's investment committee prior to an investment being made.

Decision-Making Process

Sustainability risks are considered as part of the investment decision-making process for RECI. In particular, the following sustainability risks are typically considered, both in respect of the real estate being financed and/or the relevant borrower or issuer:

- Environmental: power generation (including its sustainability), construction standards, water capture, energy efficiency, land use and ecology and pollution.
- Social: affordable housing provisions, community interaction and health and safety conditions.
- Governance: management experience and knowledge and anti-money laundering, corruption, and bribery practice.

Ongoing Management

Sustainability risks also form part of the ongoing monitoring of RECI's investments, with regular reports and ongoing engagement from borrowers and issuers incorporating information related to sustainability risks provided to the Investment Manager. Where appropriate, the investment team will assist borrowers and issuers in addressing ESG-related issues and support its borrowers' and issuers' efforts to report externally and internally on their ESG approach and performance in relation to material sustainability risks.

Exit

ESG considerations are already having an impact on underlying real estate values and whilst clear data driven evidence is in its infancy, the investment manager is acutely aware that during the life of the loans that RECI is writing, this will become much clearer. As such this is an important consideration regarding risk analysis now, hence the approach above is an integral tool when calculating, managing and measuring risk.

Responsible Investment Highlights 2023

Investment example 1

Riverstone Kensington, Senior Living Development, UK

ENVIRONMENTAL

- There are a number of initiatives to promote energy efficiency including motion sensor lighting and operating electric vehicles/providing EV charging points. Targeted BREEAM Excellent rating.

SOCIAL

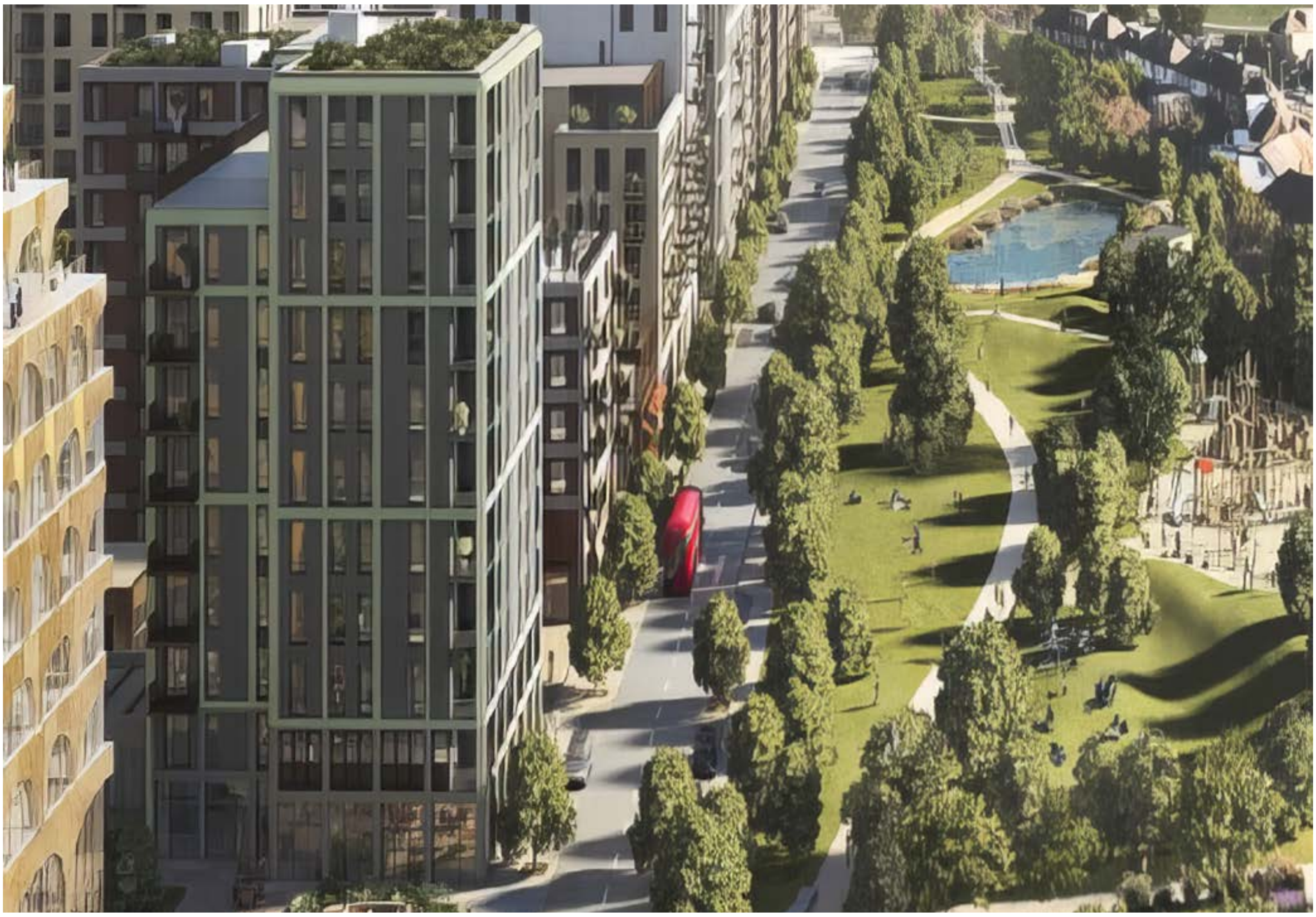
- The property is looking to address a shortage of assisted-living retirement units in London for residents who are +65 years old and want to remain within central London.

GOVERNANCE

- Riverstone is governed by an experienced team and Board which has put in place policies to ensure the health and safety of its residents' wellbeing are at the core of its agenda.
- The building has been built to the highest regulations and will adhere to the highest standards of care, providing an ergonomic and age-appropriate design to reduce the risk of accidents and facilitate independence for longer.

Investment example 2

Fusion Brent Cross, Student Accommodation Development, UK



ENVIRONMENTAL

- Zero carbon heating will service the site which will lead to a reduction in operating carbon emissions.
- There will also be a green roof, rainwater recovery systems, green electrical utility provider and a 'zero waste' shop on site.
- Brent Cross Town will aim to achieve net zero carbon by 2030.
- BREEAM Excellent rating, with Cheyne currently considering further funding to support the improvement to BREEAM Outstanding.

SOCIAL

- The accommodation will create a social hub for students with an emphasis on wellbeing and physical and mental health for students. There will be outdoor and relaxation spaces, with the wider Brent Cross scheme creating a new community space for local residents.

GOVERNANCE

- Fusion have teamed up with Health Assured in April 2020 to provide employees with a wellbeing platform and complete support network for personal and professional problems.

Sustainability Report (continued)

Outlook and Focus Areas 2023 and Beyond

The Company knows that its Shareholders, including the Directors of your Company, see attention to ESG factors as critical in its assessment of Cheyne as investment manager. The Company expects ESG to remain a dominant theme within the financial services industry going forward; the course being taken by regulators suggests that its importance will only increase in years to come; the research process and the investment judgements the Company makes will continue to reflect that and to evolve as necessary.

The continuing evolution is demonstrated through the Investment Manager making progress towards completing its ESG framework which will form the basis of an evaluation tool to influence investment decisions from an ESG perspective for new projects.

This next phase of its ESG evolution will involve the implementation of a more rigorous scoring-based system with the aim of using capital invested to finance strategies/projects that adhere to robust ESG principles. The Manager firmly believes that adopting this approach will:

- Enhance the quality of the portfolio and help to protect value;
- Stay ahead of investor demand to invest in sponsors that have a plausible and demonstrable ESG strategy;
- Use capital to drive/accelerate change in the Real Estate arena in regard to ESG; and
- Provide a measurable approach to understanding the ESG dynamics of our portfolio.

These efforts will allow the Investment Manager to influence borrowers and to improve the ESG standards of projects which they fund. The framework should be finalised in 2023. It is intended to be incorporated into the investment process slowly, beginning in early 2024.

Looking ahead, one of the main focuses will be on new regulatory requirements. Next year the Investment Manager will advance its reporting under the TCFD framework.

In addition, the UK's regulatory framework Sustainability Disclosures Requirements ("SDR") comes into force in stages from later this year. The Investment Manager is working closely with relevant parties to ensure that it is meeting the necessary regulatory requirements.

ESG subsequent covenants/conditions may well also be included in time, driven by risk management principles.

Further details on Cheyne's ESG policy can be found on its website. https://www.cheynecapital.com/investment-strategies/real-estate/investing-responsibly/

Residential development in Wembley, London

Annual Report and Accounts 2023

Governance

In this section

Co-living development in Earlsfield, London

Board of Directors

Bob Cowdell
Chairman
(UK resident)

Bob Cowdell is an independent non-executive director who has focused on the financial sector throughout his career; initially as a solicitor and then as a corporate broker and adviser. He was previously co-founder and Head of the ABN AMRO Global Investment Funds Team and then Head of Financials at RBS Hoare Govett.

He is currently chairman of Castel Underwriting Agencies Limited and a non-executive director of Thomas Miller Holdings Limited; and a former non-executive director of Baillie Gifford UK Growth Fund Plc, Catlin Underwriting Agencies Limited, Catlin Insurance Company (UK) Limited, XL London Market Limited and XL Insurance Company SE. A Freeman of the City of London, he is a member of the Institute of Directors and the Chartered Insurance Institute. He has been a member of the Board since June 2015.

Susie Farnon
Chairman of the Audit and Risk Committee
(Guernsey resident)

Mrs Farnon is a Fellow of the Institute of Chartered Accountants in England and Wales and qualified as an accountant in 1983. She is a former Banking and Finance partner of KPMG Channel Islands from 1990 until 2001 and head of the Channel Island Audit Practice from 1999. She has served as President of the Guernsey Society of Chartered and Certified Accountants and as a member of the States of Guernsey Audit Commission and as vice-chairman of the Guernsey Financial Services Commission. Susie is a non-executive director of a number of investment companies listed on the London Stock Exchange or elsewhere and is a board member of the Association of Investment Companies. She has been a member of the Board since February 2018.

John Hallam
Senior Independent Director
(Guernsey resident)

Mr Hallam is a Fellow of the Institute of Chartered Accountants in England and Wales and qualified as an accountant in 1971. He is a former partner of PricewaterhouseCoopers having retired in 1999 after 27 years with the firm both in Guernsey and in other countries.

He is the chairman of NB Distressed Debt Investment Fund Ltd as well as being a director of a number of financial services companies, some of which are listed on recognised stock exchanges. He served for many years as a member of the Guernsey Financial Services Commission from which he retired in 2006, having been its chairman for the previous three years. He has been a member of the Board since March 2016.

Colleen McHugh
Independent Director
(Guernsey resident)

Mrs McHugh is acting Chief Investment Officer of Wealthify (part of the Aviva PLC group) a UK regulated digital adviser. Prior to this she was managing director of 1818 Venture Capital, a licensed asset manager based in Guernsey. She is a non-executive director for private investment funds, and a Guernsey licensed commercial insurance company. Colleen has over 20 years' experience in the investment and financial services industry having worked predominantly as an Investment Manager and Private Banker for publicly listed banks such as HSBC, Barclays and Butterfield Bank, across several regions, but with a focus on international financial centres. She holds an economics degree from the University of Ireland (Galway) and a MBA from the University of London. Colleen is a Chartered Wealth Manager and a fellow of the Chartered Institute of Securities and Investment. She recently obtained her ESG certification from the CFA Institute. She has been a member of the Board since March 2021.

Management Team

Ravi Stickney
Head of Cheyne Real Estate/Portfolio Manager

Ravi is Head of the Real Estate Team. He joined Cheyne in 2008 and has 20 years' experience in the real estate debt markets. Previously, he was on ING Bank's proprietary investments desk (2005 to 2008), with sole responsibility for managing a €400 million long/short portfolio of European commercial real estate credits and CMBS. Prior to that, he was at Lehman Brothers (2002 to 2005), structuring and executing UK and European CMBS/RMBS and commercial real estate mezzanine loans. He acted as sole operating adviser on the restructuring and eventual sale of the first distressed UK CMBS deal, and he continues to play an active role in the direction of various distressed European real estate credits. He began his career on the UK commercial real estate desk at Ernst & Young in 1998.

Richard Lang
Head of Business Mngt/Co-Portfolio Manager

Richard is Business Manager of the real estate desk, and is a partner at Cheyne, having joined in 2007. Before joining Cheyne, Richard worked at Barclays Capital, and prior to that was at Deutsche Bank, where he was responsible for the controlling of the commercial mortgage backed securities and Securitised Products businesses. Before that, he worked in management roles within the fixed income areas of RBS and Paine Webber. He is a Fellow of the Institute of Chartered Accountants in England and Wales, having qualified as a chartered accountant in 1999.

Arron Taggart
Head of UK

Arron has over 25 years' experience in the real estate markets. He joined Cheyne in August 2012 to originate real estate loans in the UK and Northern Europe. Prior to Cheyne, Arron was a Property Specialist and Partner at Clydesdale Bank responsible for the origination and execution of real estate loans in London and the South of England. He was also responsible for the management of the loan portfolio and setting regional strategy. Prior to Clydesdale Bank, he was at Bank of Scotland and Hitachi Capital.

Raphael Smadja
French Origination

Raphael joined Cheyne in January 2014 and has 20 years' experience. Prior to Cheyne, he was an Associate Director in Real Estate Finance at Deutsche Pfandbriefbank, responsible for sourcing and structuring commercial real estate loans across Europe. Prior to that, he held positions within the Real Estate Finance and CMBS space at Moody's, UBS and Morgan Stanley.

Daniel Schuldes
European Origination

Daniel has over 18 years' experience in the European real estate debt and ABS markets. He joined Cheyne in 2007 and specialises in the origination, structuring, negotiation and execution of German real estate credit transactions. He was previously an associate on Credit Suisse's asset finance team in London, which was responsible for originating and structuring the bank's European securitisations. He focused on fundamental analysis of RMBS collateral.

Sa'ad Malik
Structured Credit

Sa'ad joined Cheyne in 2016. Prior to joining Cheyne, he founded Rhino Investment Management LLP in 2011, an FCA-authorised boutique investment and advisory firm, active in the European commercial real estate market. Among his responsibilities were strategy, origination, client management, structuring and execution. He previously worked for Lehman Brothers International (Europe) in 2004, and for Credit Suisse Securities (Europe) Limited in 2005, when he was Director in their European Real Estate Finance & Securitisation area, and had a central role in building the Titan Europe CMBS platform. Sa'ad started his career in 2000 with Commerzbank Securities in Asset Backed Finance.

Lydia Boos
Legal Counsel

Lydia is Legal Counsel for the Cheyne Real Estate Team Prior to joining Cheyne in 2018, Lydia was a senior associate at Bryan Cave Leighton Paisner LLP where she worked since starting her legal training in 2008. Lydia joined BCLP's real estate finance department upon qualifying as a solicitor in September 2010. At BCLP, Lydia was responsible for advising a range of lender and sponsor clients on real estate focused investment and development transactions across a variety of sectors, often including complex intercreditor structures.

Sophie Turner
Business Manager

Sophie is a Business Manager for the Real Estate Team focusing on Investor Relations for RECI. Prior to this, Sophie worked at Cheyne in Investor Relations as Client Services Manager and Product Specialist for Convertible Bonds, and before that, as Assistant Business Manager for the Real Estate Team. Prior to joining Cheyne in 2008, she worked at the University of Exeter's Business School, co-ordinating executive education programmes for corporates such as 3i plc. Sophie earned her BSc in Business Administration from Cardiff University.

GOVERNANCE

Directors' Report

The Directors present their Annual Report and the audited financial statements for the year ended 31 March 2023.

General Information

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

The "About the Company" section of the Annual Report on page 6 provides information regarding the structure of the Company, the investment objective and the listing details of the shares of the Company.

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

Principal Activity and Business Review

The principal activity of the Company during the year was that of an investment company investing in real estate credit investments. For full details of the Investment Policy of the Company see page 6.

Results and Dividends

The results for the year and the Company's financial position as at year end are shown on pages 72 and 73. Dividends totalling £27.5 million (31 March 2022: £27.5 million) were paid on the shares during the year.

A fourth interim dividend for the year ended 31 March 2023 of 3 pence per share (31 March 2022: 3 pence per share) was declared by the Directors on 21 June 2023 and is payable on 28 July 2023. This fourth interim dividend has not been included as a liability in these financial statements.

Capital Structure

Details of the authorised, issued and fully paid share capital, together with details of the movements in the Company's issued share capital during the current and prior year, are shown in Note 14 to the financial statements.

The Company has one class of shares which carry no right to fixed dividends. Each share carries the right to one vote at general meetings of the Company.

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

Board of Directors

The Board appoints all Directors on merit. When the Nomination Committee considers Board succession planning and recommends appointments to the Board, it takes into account a variety of factors. Knowledge, experience, skills, personal qualities, residency and governance credentials play an important part.

The Directors of the Company who served during the year and to the date of this report were:

Bob Cowdell (Chairman)
Susie Farnon
John Hallam
Colleen McHugh

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

Director	Company Name
Susie Farnon	Apax Global Alpha Limited Ruffer Investment Company Limited
John Hallam	NB Distressed Debt Investment Fund Ltd

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

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

The Directors' interests in the share capital of the Company (some of which are held directly or by entities in which the Directors may have a beneficial interest) as at the publication date are:

	Number of Shares	% Shares Held
Bob Cowdell (Chairman)	215,000	0.09%
Susie Farnon	45,250	0.02%
John Hallam	135,000	0.06%
Colleen McHugh	30,000	0.01%

Substantial Interests in Share Capital

Chapter 5 of the Disclosure and Transparency Rules requires disclosure of major Shareholder acquisitions or disposals (over 5% of the shares) in the Company (see list below of major Shareholders). During the year, there was one notification of such a transaction (31 March 2022: five notifications).

List of major Shareholders as at 31 March 2023:

Name	Total Shares Held	% Shares Held
Close Brothers Group	21,059,141	9.18
Bank Leumi Le Israel	18,054,468	7.87
Hargreaves Lansdown Asset Mgt	14,453,888	6.30
Canaccord Genuity Group Inc	13,315,151	5.81
Tilney Smith & Williamson	13,288,277	5.79
Fidelity Worldwide Investment (FIL)	11,871,829	5.18

Issued Share Capital

The issued share capital of the Company consisted of 229.3 million shares (31 March 2022: 229.3 million shares).

Directors and Officers Liability Insurance

Directors and Officers liability insurance is in place and was renewed on 6 July 2022.

Listing Information

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

Website

The Directors are responsible for the oversight of the website and delegate to Cheyne responsibility for the maintenance and integrity of the financial and corporate information included on it.

The Investment Manager

Having reviewed the performance of the Investment Manager, the Directors are satisfied that the continued appointment of the Investment Manager on the terms agreed is in the best interests of the Shareholders and the Company. The Company has entered into the Investment Management Agreement under which the Investment Manager manages its day-to-day investment operations. Details of the Investment Management Agreement can be found in Note 18 to the financial statements.

Directors' Report (continued)

Auditor

Deloitte LLP has been the Company's external auditor since the Company's incorporation and in line with best practice, the Company's lead audit partner is required to rotate off after five years of service. Further information on the work of the auditor is set out in the Audit and Risk Committee Report.

The Audit and Risk Committee reviews the appointment of the auditor on an annual basis.

Principal Risks and Uncertainties

Principal risks and uncertainties are discussed in the Strategic Report.

Related Party Transactions

Related party transactions are disclosed in Note 18 to the financial statements. There have been no material changes in the related party transactions described in the last annual report.

Going Concern

The Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements as, after due consideration, they consider that the Company has adequate resources to continue in operational existence for a period of at least 12 months from the date of signing the audited financial statements.

As highlighted in the long-term viability section in the Strategic Report, the Investment Manager performed an evaluation of each of its positions, taking into account all relevant geopolitical and macro economic risks, on its operating models and valuations, and performed a granular analysis of the future liquidity profile of the Company. A detailed cash flow profile of each investment was completed, incorporating the probability of likely delays to repayments, other stress tests (and additional cash needs). Stress testing is then performed on this cash flow forecast against a number of adverse scenarios, such as the fair value write down of the investments, or reduced cash flows from the investment portfolio. The fair value stress test was considered relevant to factor in any potential events affecting the underlying assets or credit concerns about the borrowers which potentially could impact on the fair value. The reduced cash flow stress test was considered relevant in the event of potential defaults arising on the loan portfolio and the inability to recover the interest or principal back in full.

Taking account of the updated forecasting, the Directors consider that the cash resources available as at 31 March 2023 of £14.1 million, together with the cash held at the broker of £2.4 million, the liquidity of the market bond portfolio and the financing available through activities such as repurchase agreements are sufficient to cover normal operational costs, the funding of borrower loan commitments and current liabilities, including the proposed dividend, as they fall due for a period of at least 12 months from the date of signing the audited financial statements. The Directors note that a key assumption adopted in the going concern analysis is that leverage through repurchase agreements is not withdrawn. Net debt (leverage minus cash) as at 31 March 2023 was 19.1%. The Directors consider this to have strengthened the resilience of the Company to future market uncertainty.

For further information, please refer to Note 2 to the financial statements.

AGM

It is intended that the AGM of the Company will be held at 10:30am on 15 September 2023 and details of the resolutions to be proposed at the AGM, together with explanations, will appear in the Notice of Meeting to be distributed to Shareholders together with a copy of this Annual Report. Members of the Board will be in attendance at the AGM and will be available to answer Shareholder questions.

On behalf of the Board on 21 June 2023.

Bob Cowdell
Director

Susie Farnon
Director

Co-living development in Maida Vale, London

GOVERNANCE

Remuneration Committee Report

As in other areas of corporate governance, the Company seeks to adhere to the AIC Code of Corporate Governance issued in February 2019 and has established a Remuneration Committee. Although the Company is not incorporated in England and Wales it is mindful of the regulations that apply to such companies in the context of remuneration and will seek to make appropriate disclosures. All Directors are non-executive and are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits, performance related or otherwise. Directors do not have service contracts and there is no provision for compensation for loss of office. All Directors are entitled to be repaid all expenses reasonably incurred in the performance of their duties and have signed a letter of appointment setting out the terms of such appointment.

The prime purpose of the Committee is to determine the Company's remuneration policy within the limits set by the articles of incorporation which currently state that the remuneration paid to each Director by way of fees shall not exceed €160,000 in any financial year. Additionally, they provide that if any Director performs any special duties, or renders services, outside of the ordinary duties of a Director, that Director shall be paid such reasonable additional remuneration as the Board may determine. The Committee is authorised by the Board to seek, subject to a financial limit, such independent advice as it may deem necessary in the discharge of its responsibilities.

Composition of the Committee

The Committee is chaired by John Hallam, the Company's senior independent Director and is composed of all the Directors including the Chairman of the Company, who was deemed independent at the time of his appointment. This membership is considered appropriate as, collectively, its members are believed to have the necessary experience and knowledge to fairly determine remuneration.

Remuneration Policy

The current policy adopted by the Committee is set out below and will be tabled at the next AGM for approval by Shareholders along with this Report. The Company's Remuneration Policy is that fees payable to the Directors should reflect the experience and expertise of and the responsibilities borne by the Directors and the time spent on the Company's affairs and be sufficient to attract, retain and motivate individuals of high calibre with suitable skills, experience and knowledge and to ensure that their remuneration is set at a reasonable level commensurate with their duties and responsibilities. No element of the Directors' remuneration is performance related.

In determining the level of these fees, the Committee obtains and takes account of reliable, up-to-date information about remuneration in other companies of comparable scale and complexity together with general economic conditions. To help it fulfil its obligations, the Committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary.

Implementation of the policy

The last major review of Board remuneration took place in 2022 and it is anticipated that the next will be in 2025. In the interim, the Committee notes that during the year ended 31 December 2022, Guernsey RPIX increased by 8.5% and therefore has recommended that the Chairman's fee be increased from £80,000 to £86,800 (an increase of 8.5%) and the base fee for other Directors move from £38,500 to £41,750 (an increase of 8.4%) to reflect this.

As a consequence of these recommendations, the following table sets out the remuneration of Board members for the financial year ending 31 March 2024 as compared to the two previous years; it should be noted that the additional fees set last year, and which remain unchanged, relate to the roles performed and not to specific individuals while the table below assumes that the named individuals will discharge the roles indicated throughout the coming year.

	Year ending 31 March 2024 GBP	Year ended 31 March 2023 GBP	Year ended 31 March 2022 GBP
Bob Cowdell (Chairman and Nomination Committee Chair)	86,800	80,000	75,000
Susie Farnon (Audit and Risk Committee and Management Engagement Committee Chair)	56,250	53,000	46,750
John Hallam (Remuneration Committee Chair and Senior Independent Director)	44,250	41,000	36,750
Colleen McHugh (Environmental, Social and Corporate Governance Lead)	44,250	41,000	36,750

Furthermore, the Committee noted that, in the year ended 31 March 2020, additional fees had been paid to the Chairman (£10,000) and other Directors (£5,000 each) for work in relation to the issuance of a prospectus. It is the Committee's recommendation that should a prospectus be issued during the financial year ending 31 March 2024, additional fees of the same amount should be paid.

Statement of Shareholder voting

At the last AGM held on 15 September 2022, a resolution to approve the Remuneration Committee Report and Remuneration Policy was passed with 79,602,454 votes (99.93%) being cast in favour and 49,997 votes (0.06%) against.

Future Reviews

It is anticipated that full reviews will not take place at less than three-yearly intervals but that the Committee will, in the early part of each year, review the changes in Guernsey RPIX to determine if it is appropriate to increase the Chairman's fee and the base fee for other Directors.

John Hallam
Remuneration Committee Chair
21 June 2023

GOVERNANCE

Corporate Governance Statement

Statement of Compliance with Corporate Governance

The Company is a member of the Association of Investment Companies (the "AIC") and by complying with the February 2019 edition of the AIC code of Corporate Governance for investment companies ("AIC Code") is deemed to comply with both the UK and Guernsey Codes of Corporate Governance.

To comply with the UK Listing Regime, the Company must comply with the requirements of the UK Corporate Governance Code.

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

The Company has complied with the recommendations of the AIC Code throughout the accounting period, except as set out below.

The AIC Code includes provisions relating to:

- the role of the chief executive;
- executive directors' remuneration; and
- the whistle-blowing policy.

The Board considers some of these provisions are not relevant to the position of the Company as it is an externally managed investment company. The Directors are non-executive and the Company does not have employees and the Board is satisfied that any relevant issues that arise can be properly considered by the Board or by Shareholders at AGMs. The Remuneration Committee considers matters relating to Directors' remuneration. An external assessment of Directors' remuneration has not been undertaken.

The Company's Remuneration policy is that fees payable to the Directors should reflect the experience and expertise of and the responsibilities borne by the Directors and the time spent on the Company's affairs and be sufficient to attract, retain and motivate Directors of a quality required to run the Company successfully. Please refer to the Remuneration Committee Report on pages 48-49.

The Board

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

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

Duties and Responsibilities

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

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

	Scheduled Board Meetings Attendance	Nomination Committee Meeting Attendance	Audit and Risk Committee Meeting Attendance	Management Engagement Committee Meeting Attendance	Remuneration Committee Meeting Attendance
Attendance by:					
Bob Cowdell (Chairman)	4/4	1/1	3/3	1/1	1/1
Susie Farnon	4/4	1/1	3/3	1/1	1/1
John Hallam	4/4	1/1	3/3	1/1	1/1
Colleen McHugh	4/4	1/1	3/3	1/1	1/1

The Board is responsible to Shareholders for the overall management of the Company.

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

The previous table is an extract of the various Directors' attendance at Board and Committee meetings for the financial year compared against those for which they were eligible to attend.

Additionally, five ad-hoc meetings and a further three informal meetings were held during the year which, as they dealt primarily with administrative and transaction matters, were attended by those Directors available at the time.

Chairman

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

Senior Independent Director ("SID")

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

Board Independence

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

Committees of the Board

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

Audit and Risk Committee

The Audit and Risk Committee is chaired by Mrs Farnon, and its other members are Mr Cowdell, Mr Hallam and Mrs McHugh. The terms of reference of the Audit and Risk Committee state that it will meet not less than three times in each financial year. In the year ended 31 March 2023, the Audit and Risk Committee met at one ad-hoc meeting and four informal meetings. The Audit and Risk Committee Report on pages 56-59 sets out the role and activities of this Committee and its relationship with the external auditor.

Nomination Committee

The Nomination Committee is chaired by Mr Cowdell and its other members are Mr Hallam, Mrs Farnon and Mrs McHugh. The members of the Nomination Committee are and will be independent Directors. The terms of reference state that the Nomination Committee will meet not less than once a year; will have responsibility for considering the size, structure and composition of the Board; retirements and appointments of additional and replacement Directors; and that the Nomination Committee will make appropriate recommendations to the Board.

Corporate Governance Statement (continued)

The Board appoints all Directors on merit. When the Nomination Committee considers Board succession planning and recommends appointments to the Board, it takes into account a variety of factors. Knowledge, experience, skills, personal qualities, residency and governance credentials play an important part. The Board aims to have a balance of skills, experience, diversity (including gender) and length of service and knowledge of the industry. The Board undertakes an evaluation of its performance on an annual basis. The performance of each Director is considered as part of a formal review by the Nomination Committee.

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

The performance of the Chairman of the Board will be assessed by the SID through appraisal questionnaires and discussions with the other Directors.

Management Engagement Committee

The Management Engagement Committee is chaired by Mrs Farnon, with its other members being Mr Hallam, Mr Cowdell and Mrs McHugh. The Committee will meet at least once a year for the purpose of evaluating the performance of the Company's service providers, the review of service agreements and service level statements and the level and method of their remuneration. It is proposed that Mrs McHugh will succeed Mrs Farnon as chair of the Committee following the Company's next AGM.

Remuneration Committee

The Remuneration Committee is chaired by Mr Hallam, with its other members being Mr Cowdell, Mrs Farnon and Mrs McHugh. The Committee will meet at least once a year for the purpose of determining Directors' remuneration and setting the Company's remuneration policy.

Director Re-Election Tenure and Induction

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

The Board regards all Directors as being independent. The Board has adopted a policy whereby all Directors will be proposed for re-election each year and so all Directors will be proposed for re-election at the forthcoming AGM. Details of Directors' tenure are disclosed on pages 40-41.

Internal Controls

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

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

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

While investment management is provided by Cheyne, the Board is responsible for setting the overall Investment Policy and monitors the actions of the Investment Manager at regular Board meetings. Administration services are provided by Citco. Regular compliance reports from both the Investment Manager and the Administrator are received by the Board. In addition, the Administrator makes available its Global Fund Accounting and Custody Controls Examination, SOC 1 report to the Board on an annual basis.

Custody of assets is undertaken by the Depositary, The Bank of New York Mellon (International) Limited.

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

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

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

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

Corporate Social Responsibility

The Board keeps under review developments involving social and environmental issues, and will report on those to the extent they are considered relevant to the Company's operations. The Company's ESG strategy is outlined on page 30 of the Stakeholder Engagement section and in the Sustainability Report on pages 32-36.

UK Criminal Finances Act 2017

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

General Data Protection Regulation ("GDPR")

The Board confirms that the Company has considered GDPR and taken measures itself and with its service providers, to meet the requirements of GDPR and equivalent Guernsey law.

Anti-Bribery and Corruption Policy

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

Whistle-blowing

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

Employees and Socially Responsible Investment

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

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

Modern Slavery Act 2015

The Company as a Guernsey incorporated entity is not within scope of the Modern Slavery Act 2015, and is therefore not obliged to make a human trafficking statement.

Corporate Governance Statement (continued)

Gender Metrics

The Company, in conjunction with the Investment Manager, strives to achieve a diverse workforce that embraces individuals of all gender, race, nationality, religion, age and orientation and to develop a unique workplace to come together and grow professionally and personally.

Cheyne is committed to supporting diversity, equality and inclusion through implementing change and supporting initiatives, partnerships and programmes across the firm and the industry, under the oversight of Cheyne's DE&I Committee. Cheyne is comprised of a diverse range of employees and is committed to providing equal employment opportunities to all colleagues and applicants without regard to gender, race, nationality, religion, age, orientation or disability. To this end, Cheyne has implemented reporting tools within its HR system to enable a more granular measurement of gender and ethnicity, using the AIMA/Albourne classifications within their DE&I Questionnaire, that is compliant with data privacy considerations. The ongoing evolution and monitoring of this data will allow the Investment Manager to assess how its DE&I Policy and supporting action plans are working in practice, while enabling the DE&I Committee to identify areas for improvement and target its efforts to effect change. The business case behind the data collection has been communicated to all employees.

Principal Risks and Uncertainties

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

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

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

The Company's principal risks are discussed in the Strategic Report of these financial statements and in the Company's Prospectus, available on the Company's website (www.realestatecreditinvestments.com) while those specifically relating to financial reporting are discussed in the Audit and Risk Committee Report and Note 15 to the financial statements.

Changes in Regulation

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

Luxury villa development in Ibiza, Spain

GOVERNANCE

Audit and Risk Committee Report

Dear Shareholders,

On the following pages, we present the Audit and Risk Committee's report for 2023, setting out the responsibilities of the Audit and Risk Committee and its key activities during the year ended 31 March 2023. As in previous years, the Audit and Risk Committee has reviewed the Company's financial reporting, the independence and effectiveness of the external auditor and the internal control and risk management systems of the Company's service providers. In order to assist the Audit and Risk Committee in discharging these responsibilities, regular reports are received and reviewed from the Investment Manager, Administrator and external auditor.

A member of the Audit and Risk Committee will be available at each AGM to respond to any Shareholder questions on the activities of the Audit and Risk Committee.

Susie Farnon
Chairman of the Audit and Risk Committee

Membership of the Audit and Risk Committee

The Audit and Risk Committee is chaired by Mrs Farnon, and its other members are Mr Cowdell, Mr Hallam and Mrs McHugh. The FRC Guidance on Audit and Risk Committees recommends that such a committee should comprise solely of independent non-executive directors and, as noted in the Corporate Governance Statement, the Board has considered the independence of its members and has concluded that they all remain independent. The Company Chairman currently serves as a member of the Audit and Risk Committee. The terms of reference state that the Audit and Risk Committee will meet not less than three times in the year and meet the external auditor twice a year, on which occasions the need to meet without representatives of either the Investment Manager or the Administrator being present is considered. The terms of reference include all matters indicated in the Disclosure and Transparency Rule 7.1 and the AIC Code.

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

Responsibilities

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

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

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

Meetings

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

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

Significant Issues Considered over Financial Reporting

The Audit and Risk Committee has determined that the key risks of misstatement of the Company's financial statements relate to the judgements in respect of the fair value of the Company's portfolio and income recognition.

Additional information regarding principal risks and uncertainties is provided in the Strategic Report and in Note 15 to the financial statements.

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

Valuation of Portfolios

The Audit and Risk Committee conducted a detailed review of each bilateral loan and bond position through discussions with the AIFM's relevant individual asset managers challenging them as appropriate. Such discussions covered aspects such as:

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

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

- The key valuation judgement whereby the effective interest rate calculated when the loan or bond was issued is used as proxy for the market yield at the valuation date;
- Pricing sources;
- The valuation approach used to value certain bonds by the independent pricing adviser and challenging the AIFM's assessment of the comparable securities and sector analysis used in determining the valuation of these bonds;
- The range of valuations determined by the independent pricing adviser in light of the approaches used and the weighting applied by the Investment Manager to derive fair value point estimate;
- Comparison between effective and actual yields;
- Depth of prices and any disparity between different marks;
- Indicative liquidity;
- Comparison of realised prices with previous valuations; and
- The significance of unobservable inputs used to determine the fair value of the bond investments and classification within the fair value hierarchy.

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

During the year, the Chairman of the Audit and Risk Committee and/or other members of the Board attended at least two of the meetings held between the auditor and the Investment Manager in respect of valuations.

Income Recognition

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

Audit and Risk Committee Report (continued)

As highlighted in the long-term viability section in the Strategic Report, the Investment Manager performed an evaluation of each of its positions, taking into account all relevant geopolitical and macro economic risks, on its operating models and valuations. A detailed cash flow profile of each investment was completed, incorporating the probability of likely delays to repayments, other stress tests (and additional cash needs); these were taken into account in the modelled expected cash flows for 31 March 2023.

Risk Management

The Company's risk assessment process and the way in which significant business risks are managed is a key area of focus for the Committee. The work of the Audit and Risk Committee is driven primarily by the Company's assessment of its principal risks and uncertainties as set out in the Strategic Report and in Note 15 to the financial statements, and it receives reports from the Investment Manager on the Company's risk evaluation process and reviews changes to significant risks identified.

Internal Audit

The Committee considers at least once a year whether or not there is a need for an internal audit function. Currently, the Committee believes that, given the Company has no employees, the SOC 1 internal control report provided by the Administrator and the reporting provided by the Investment Manager are sufficient and has made a recommendation to the Board to this effect.

External Audit

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

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

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

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

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

John Clacy replaced David Becker as audit partner from the year ended 31 March 2021. He also served as the audit partner for the years ended 31 March 2011 to 31 March 2015. The Audit and Risk Committee has considered this in light of guidance and the changes to the business since this time and, as such, they are satisfied that his independence is not impaired.

The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor, with particular regard to the level of non-audit fees. During the year, Deloitte charged non-audit fees of £39,500 for the 30 September 2022 interim review.

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

To fulfil its responsibility regarding the independence of the auditor, the Audit and Risk Committee considers:

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

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

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

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

During the year ended 31 March 2023, the auditor had three meetings with the Audit and Risk Committee and met with the Chairman of the Audit and Risk Committee on other occasions when necessary.

On behalf of the Audit and Risk Committee.

Susie Farnon
Chairman of the Audit and Risk Committee
21 June 2023

GOVERNANCE

Directors' Responsibility Statement

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We confirm that to the best of our knowledge:

(i) The financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;

(ii) The Chairman's Statement, the Strategic Report and the Investment Manager's Report include a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties they face; and

(iii) So far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 249 of the Companies (Guernsey) Law, 2008 (as amended).

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

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

By order of the Board.

Bob Cowdell
Director
21 June 2023

Susie Farnon
Director

Fully let office in Shoreditch, London

Annual Report and Accounts 2023

Financial Statements

In this section

Mixed-use development in London

Independent Auditor's Report to the Members of Real Estate Credit Investments Limited

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Real Estate Credit Investments Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 22.

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

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Company for the year are disclosed in note 5 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters

The key audit matter that we identified in the current year was:

- Key Judgement in the valuation of bilateral loan and bond portfolio

Within this report, key audit matters are identified as follows:

- Newly identified
- Increased level of risk
- Similar level of risk
- Decreased level of risk

Key audit matters	**Materiality** The materiality that we used in the current year was £6.7 million which was determined on the basis of approximately 2% of net assets of the Company. **Scoping** Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team. **Significant changes in our approach** There have been no significant changes in our audit approach. In the current year audit, our key audit matter regarding the valuation of bilateral loan and bond portfolio relates specifically to the judgement used by management that the initial effective yield of investments remains suitable to be used as a discount rate in the current market environment.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating management's going concern paper, identifying the assumptions applied in the going concern assessment particularly the considerations of the current macroeconomic challenges and testing the mechanical accuracy of the underlying forecasts;
- Performing reverse stress testing on the key assumptions applied to understand those that could potentially give rise to a material uncertainty in respect of the use of the going concern basis;
- Checking consistency of the forecast assumptions applied in the going concern assessment with other forecasts, including asset maturity and valuation assumptions; and
- Assessing the liquidity position of the Company including its ability to meet its undrawn commitments by evaluating the impact of repayment of the Company's financing agreements at maturity without renewal, and considered the mitigating actions identified by the Directors as available responses to liquidity risks.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Company has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report to the Members of Real Estate Credit Investments Limited (continued)

5.1. Key Judgement in the valuation of bilateral loan and bond portfolio

Key audit matter description	The bilateral loan and bond investments of £351.5 million (2022: £295.9 million) make up 84% (2022: 66%) of total assets and are a key value driver for the Company's Net Asset Value (NAV). As the Company's investments are measured at fair value, the discount rate that should be used to calculate the present value of future cash flows should be the market yield prevailing at the valuation date. Management has made a judgement that for these instruments that are highly bespoke and are not adequately comparable to other market positions, the initial effective yield of investment is considered an appropriate representative of the current market yield at the valuation date. This is the key judgement made by management in the valuation of the investment portfolio. This has contributed to a risk of fraud and error associated with the valuation approach applied particularly around the fixed income investments. This has become of more importance as a result of the changes in the macroeconomic environment and the movement in market yield during the year. This judgement is described as one of the key sources of estimation uncertainty in note 3 and 15 to the financial statements. This is further described in the Audit and Risk Committee Report on pages 56-59.
How the scope of our audit responded to the key audit matter	To respond to the key audit matter, we have performed the following audit procedures: • Obtained an understanding of, and tested the operating effectiveness of the controls around the valuation process. • Challenged management's use of bond or loan's initial effective yield as a representative of market yield by performing management enquiries and assessing the assumptions used. • Analysed the bilateral loans and bonds investment portfolio by comparing the yield of each fixed interest rate loan or bond with the relevant range of market yields at the valuation date using independent expert third-party data. • Analysed the yields implicit in loans and bonds issued during the year and compared with the yields of more seasoned loans to evaluate management's assertion that the yield of the Company's assets is dislocated from the movement in market yields. • Searched for contradictory evidence by verifying a number of data points including the realisation of loans and bonds during the year and the pricing of bonds and loans valued using market comparables. • Assessed the financial statements related disclosures to evaluate whether they appropriately explain judgements made by management, including the associated assumptions, and highlight the sensitivity to changes in those assumptions.
Key observations	We concluded that the judgement applied by management, in arriving at the fair value of the Company's self-originated bonds and loans investments, was reasonable, and that the resulting valuations are not materially misstated. We also concluded that the related disclosures are appropriate.

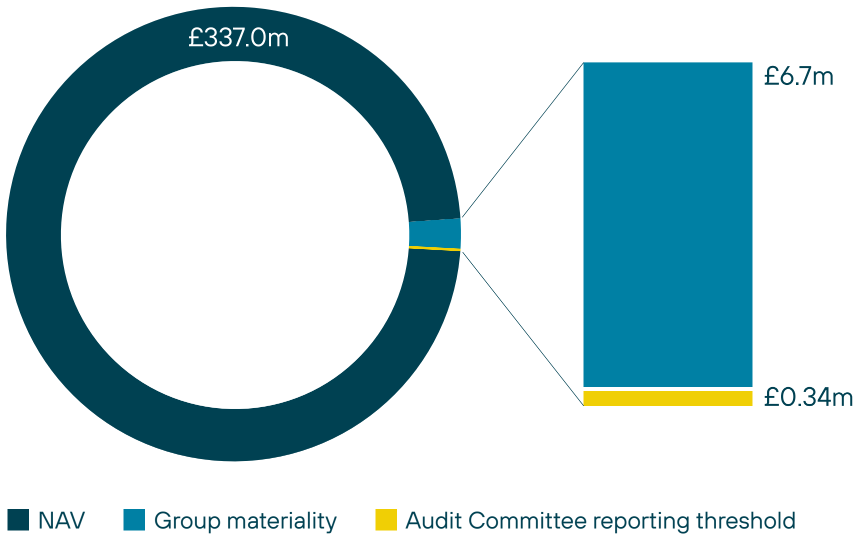
6. Our application of materiality

6.1. Materiality

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

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

Materiality	£6.7 million (2022: £6.9 million)
Basis for determining materiality	2% (2022: 2%) of the Net Asset Value as at 31 March
Rationale for the benchmark applied	Net Asset Value is the most appropriate benchmark as it is considered one of the principal considerations for members of the Company in assessing financial performance and represents total Shareholders' interest.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2023 audit (2022: 70%). In determining performance materiality, we considered the following factors:

- our risk assessment, including our assessment of the Company's overall control environment, including that of the administrator; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £336,000 (2022: £343,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent Auditor's Report to the Members of Real Estate Credit Investments Limited (continued)

7. An overview of the scope of our audit

7.1. Scoping

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

7.2. Our consideration of the control environment

The accounting function for the Company is provided by a third-party administrator. In performing our audit, we obtained an understanding of relevant controls at the administrator that are relevant to the business processes of the Company. We have obtained an understanding of and tested the operating effectiveness of the control procedures at the investment manager level around the key valuation judgement used in the valuation but we have not followed a control reliance approach.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Company's business and its financial statements.

The Company continues to develop its assessment of the potential impacts of environmental, social and governance ("ESG") related risks, including climate change, as outlined on page 32.

We performed our own qualitative risk assessment of the potential impact of climate change on the Company's account balances and classes of transactions.

We have also read the annual report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

8. Other information

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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.

9. Responsibilities of Directors

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

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

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Company's remuneration policies, key drivers for the investment manager and Directors' remuneration, and performance targets;
- the Company's own assessment of the risks that irregularities may occur either as a result of fraud or error that was last approved by the Board on 13 June 2023;
- results of our enquiries of management and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area:

- Key Judgement in the valuation of bilateral loan and bond portfolio

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Companies (Guernsey) Law, 2008, the Listing Rules and relevant tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included the Company's regulatory licences under The Protection of Investors (Bailiwick of Guernsey) Law, 2020.

Independent Auditor's Report to the Members of Real Estate Credit Investments Limited (continued)

11.2. Audit response to risks identified

As a result of performing the above, we identified key judgement in the valuation of bilateral loan and bond portfolio as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and the Audit Committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Guernsey Financial Services Commission; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 46;
- the Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 17;
- the Directors' statement on fair, balanced and understandable set out on page 60;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 54;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 52-53; and
- the section describing the work of the Audit Committee set out on pages 56-59.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the Audit Committee as a result of the most recent tender process, we were appointed by the Board of Directors on 13 June 2018 to audit the financial statements for the year ending 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 18 years, covering the years ending 31 March 2006 to 31 March 2023.

14.2. Consistency of the audit report with the additional report to the Audit Committee

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

15. Use of our report

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

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements will form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

John Clacy, FCA
For and on behalf of Deloitte LLP
Recognised Auditor
St Peter Port, Guernsey
21 June 2023

Statement of Comprehensive Income

For the year ended 31 March 2023

	Note	31 Mar 2023 GBP	31 Mar 2022 GBP
Interest income	6	31,922,543	26,981,790
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	4	(1,264,149)	5,351,474
Other income		7,940	37,017
Operating income		**30,666,334**	**32,370,281**
Operating expenses	5	(6,143,662)	(5,841,351)
Profit before finance costs		**24,522,672**	**26,528,930**
Finance costs	6	(3,972,353)	(1,954,553)
Net profit		**20,550,319**	**24,574,377**
Other comprehensive income		–	–
Total comprehensive income		**20,550,319**	**24,574,377**
Earnings per share			
Basic and diluted	8	9.0p	10.7p
Weighted average shares outstanding		**Number**	**Number**
Basic and diluted	8	229,332,478	229,332,478

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

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

Statement of Financial Position

As at 31 March 2023

	Note(s)	31 Mar 2023 GBP	31 Mar 2022 GBP
Non-current assets			
Financial assets at fair value through profit or loss	9,15	400,741,910	394,341,104
		400,741,910	394,341,104
Current assets			
Cash and cash equivalents	9	14,081,343	47,385,138
Cash collateral at broker	9,17	2,383,962	5,204,692
Derivative financial assets	9,10	1,756,118	–
Other assets	9	27,345	22,708
		18,248,768	52,612,538
Total assets		**418,990,678**	**446,953,642**
Equity and liabilities			
Equity			
Reserves		336,965,907	343,935,484
		336,965,907	**343,935,484**
Current liabilities			
Financing agreements	9,13	80,154,134	100,368,732
Derivative financial liabilities	9,10	–	1,072,792
Other liabilities	9,11	1,870,637	1,576,634
		82,024,771	103,018,158
Total liabilities		82,024,771	103,018,158
Total equity and liabilities		**418,990,678**	**446,953,642**
Shares outstanding	14	229,332,478	229,332,478
Net asset value per share		£1.47	£1.50

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

Signed on behalf of the Board of Directors by:

Bob Cowdell
Director
21 June 2023

Susie Farnon
Director

Statement of Changes in Equity

For the year ended 31 March 2023

	Note	31 Mar 2023 GBP
Balance as at 31 March 2022		**343,935,484**
Total comprehensive income		20,550,319
Dividends	7	(27,519,896)
Balance as at 31 March 2023		**336,965,907**

	Note	31 Mar 2022 GBP
Balance as at 31 March 2021		**346,881,003**
Total comprehensive income		24,574,377
Dividends	7	(27,519,896)
Balance as at 31 March 2022		**343,935,484**

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

Statement of Cash Flows

For the year ended 31 March 2023

	Note	31 Mar 2023 GBP	31 Mar 2022 GBP
Net profit		20,550,319	24,574,377
Purchases of investment portfolio		(158,644,471)	(258,415,073)
Repayments of investment portfolio		158,975,081	269,398,579
Movement in realised and unrealised gains on investment portfolio	4	(4,466,341)	(2,742,188)
Net movement on derivative financial assets and liabilities		(2,828,910)	3,333,189
Interest income		(31,922,543)	(26,981,790)
Interest expense		3,972,353	1,954,553
Operating cash flows before movement in working capital		**(14,364,512)**	**11,121,647**
Decrease/(increase) in cash collateral at broker		2,820,730	(4,260,712)
Increase in other assets		(4,637)	(1,788)
Increase/(decrease) in other liabilities		200,882	(63,571)
Movement in working capital		**3,016,975**	**(4,326,071)**
Interest received		29,657,468	26,201,075
Net cash flow from operating activities		**18,309,931**	**32,996,651**
Financing activities			
Dividends paid to Shareholders		(27,519,896)	(27,519,896)
Payments under financing agreements		(689,398,896)	(617,305,171)
Proceeds under financing agreements		666,877,816	639,854,100
Finance costs paid		(1,572,750)	(1,861,358)
Net cash outflow from financing activities		**(51,613,726)**	**(6,832,325)**
Net (decrease)/increase in cash and cash equivalents		(33,303,795)	26,164,326
Cash and cash equivalents at the start of the year		47,385,138	21,220,812
Cash and cash equivalents at the end of the year		**14,081,343**	**47,385,138**

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

Notes to the Financial Statements

For the year ended 31 March 2023

1. General Information

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

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

The Company's shares are currently listed on the premium segment of the Official List of the UK Listing Authority and trade on the Main Market of the London Stock Exchange. The shares offer investors a levered exposure to a portfolio of real estate credit investments and aim to pay a quarterly dividend.

The Company's investment management activities are managed by the Investment Manager, who is also the AIFM. The Company has entered into an Investment Management Agreement (the "Investment Management Agreement") under which the Investment Manager manages its day-to-day investment operations, subject to the supervision of the Company's Board of Directors. The Company is an Alternative Investment Fund ("AIF") within the meaning of the Alternative Investment Fund Managers Directive ("AIFMD") and accordingly the Investment Manager has been appointed as the AIFM of the Company, which has no employees of its own. For its services, the Investment Manager receives a monthly Management Fee, expense reimbursements and accrues a Performance Fee (see Note 18). The Company has no ownership interest in the Investment Manager.

Citco Fund Services (Guernsey) Limited is the Administrator and provides all administration services to the Company in this capacity. The Bank of New York Mellon (International) Limited is the Depositary and undertakes the custody of assets. Aztec Financial Services (Guernsey) Limited is the Company Secretary.

2. Significant Accounting Policies

Statement of Compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect, together with applicable legal and regulatory requirements of Guernsey Law and the Listing Rules of the UK Listing Authority. The same accounting policies, presentation and methods of computation have been followed in these financial statements as were applied in the preparation of the Company's audited financial statements for the year ended 31 March 2022.

New Standards, Amendments and Interpretations Issued and Effective for the Financial Year Beginning 1 April 2022

Amendment to International Accounting Standards ("IAS") 37 – Onerous Contracts: Cost of Fulfilling a Contract

The amendments apply a 'direct related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments must be applied prospectively to contracts for which an entity has not yet fulfilled its obligations at the beginning of the annual reporting period in which it first applies the amendments. The amendment is intended to provide clarity and help ensure consistent application of the standard. Entities that have previously applied the incremental cost approach will see increased provisions to reflect the intrusion of costs related directly to contract activities. Judgement will be required in determining which costs are 'directly related to contract activities', but the guidance in IFRS 15 Revenue from Contracts with Customers will be relevant. The amendments to IAS 37 are effective for annual periods beginning on or after 1 January 2022. The amendments have no material impact on the financial statements of the Company.

New Standards, Amendments and Interpretations Issued but not Effective for the Financial Year Beginning 1 April 2022 and not Early Adopted

Title	Effective for periods beginning on or after
IFRS 17 *Insurance Contracts*	1 January 2023
Amendments to IAS 1 – *Classification of Liabilities as Current or Non-current*	1 January 2023
Amendments to IAS 8 – *Definition of Accounting Estimates*	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2 – *Disclosure of Accounting Policies*	1 January 2023
Amendments to IAS 12 – *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023

IFRS 17 Insurance Contracts has no material impact on the financial statements as the Company does not have insurance contracts.

Amendments to IAS 1 affect only the presentation of liabilities in the Statement of Financial Position and not the amount or timing of recognition of any asset, liability income or expenses, or the information that the Company discloses about those items.

Amendments to IAS 8 are intended to provide preparers of financial statements with greater clarity as to the definition of accounting estimates, particularly in terms of the difference between accounting estimates and accounting policies. Earlier application is permitted. The Company did not early adopt these amendments and expects that the amendments will have no material impact on the financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2 provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. Determining whether accounting policies are material or not requires use of judgement. Earlier application is permitted. The Company did not early adopt these amendments and expects that the amendments will have no material impact on the financial statements.

Amendments to IAS 12 clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). Earlier application is permitted. The Company did not early adopt these amendments and expects that the amendments will have no material impact on the financial statements.

Basis of Preparation

The financial statements of the Company are prepared under IFRS on the historical cost or amortised cost basis except for financial assets and liabilities classified at fair value through profit or loss which have been measured at fair value.

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

Going Concern

The Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements as, after due consideration, they consider that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of signing the audited financial statements.

The Investment Manager performed an evaluation of each of its positions in light of all macroeconomic factors on operating models and valuations, and performed a granular analysis of the future liquidity profile of the Company. A detailed cash flow profile of each investment was completed, incorporating the probability of likely delays to repayments, other stress tests (and additional cash needs).

Notes to the Financial Statements (continued)

For the year ended 31 March 2023

Taking account of the updated forecasting, the Directors consider that the cash resources available as at 31 March 2023 of £14.1 million (31 March 2022: £47.4 million), together with the cash collateral at broker of £2.4 million (31 March 2022: £5.2 million), the liquidity of the market bond portfolio and the financing available through activities such as repurchase agreements as described in Note 13, are sufficient to cover normal operational costs and current liabilities, including the proposed dividend, and the expected funding of loan commitments as they fall due for a period of at least twelve months from the date of signing the audited financial statements. The Directors note that a key assumption adopted in the going concern analysis is that leverage through repurchase agreements is not withdrawn. Net debt (leverage minus cash) as at 31 March 2023 was 19.1% (31 March 2022: 14.0%).

Notwithstanding the Directors' belief that this assumption remains justifiable, the Directors have also determined a number of mitigations to address a scenario where all outstanding repurchase agreements are required to be settled as they fall due. Whilst there would be a number of competing strategic factors to consider before implementation of such options, the Directors believe that these are credible and can generate sufficient liquidity to enable the Company to meet its obligations as they fall due. Such strategies include further sales of assets within the bond portfolio, cessation or delay of any future dividends, obtaining longer-term and non-recourse financing, and entering into some off-balance sheet financing agreements which have partial recourse to the Company.

In carrying out the Company's strategy, the Investment Manager undertakes the following measures:

- An initial and continuing detailed evaluation of each of its positions in light of the various impacts of changing economic circumstances on operating models and valuations;
- Positive engagement with all borrowers and counterparties; and
- Continued granular analysis of the future liquidity profile of the Company.

As disclosed in Note 19, as at 31 March 2023, the Company had committed £572.0 million into the loan and bond portfolio of which £367.8 million had been funded (31 March 2022: £522.9 million commitment of which £284.4 million had been funded). The Investment Manager models these expected commitments and only funds if the borrowers meet specific business plan milestones.

In consideration of this additional stressed scenario and mitigations identified, the Directors consider that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of signing the financial statements.

Financial Assets at Fair Value Through Profit or Loss

The Company classifies its investments based on both the Company's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Company is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Company has not taken the option to irrevocably designate any equity securities at fair value through other comprehensive income. The contractual cash flows of the Company's debt securities are not solely principal and interest, and these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Company's business model's objective. Consequently, all investments are measured at fair value through profit or loss. The gain or loss on reassessment of fair value is recognised immediately in the Statement of Comprehensive Income.

The interest receivable from loans and bonds were reported as part of financial assets at fair value through profit or loss. The related interest income and expense remained to be included under interest income and expense accounts.

Financial Liabilities at Fair Value Through Profit or Loss

Financing agreements entered into for the purpose of efficient portfolio management are measured at fair value through profit or loss. The gain or loss on reassessment of fair value is required to be split into the amount of change in fair value attributable to changes in credit risk of the liability, presented in other comprehensive income, and the remaining amount presented in profit or loss. The Company's gain or loss on reassessment of fair value is recognised immediately in the Statement of Comprehensive Income as the Company has taken its position to recognise the full amount of change in the fair value in profit or loss.

Financial Assets at Amortised Cost

A financial asset is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order 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 on the principal amount outstanding. This includes cash and cash equivalents, cash collateral at broker and other assets.

Financial Liabilities at Amortised Cost

Other liabilities include all other liabilities.

Initial Measurement

Financial assets and liabilities at fair value through profit or loss are measured initially at fair value, with transaction costs for such financial assets and liabilities being recognised directly in the Statement of Comprehensive Income.

Financial assets and liabilities at amortised cost are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

Purchases and sales of financial assets and liabilities at fair value through profit or loss are accounted for at trade date. Realised gain/(loss) on disposals of financial assets and liabilities is calculated using the first-in, first-out ("FIFO") method.

Subsequent Measurement

After initial measurement, the Company measures financial assets which are classified as at fair value through profit or loss, at fair value.

Financial liabilities held for trading are measured at fair value through profit or loss, and all other financial liabilities are measured at amortised cost, unless the fair value option is applied. The Company classifies its financial liabilities as at fair value through profit or loss.

After initial measurement, the Company measures financial assets and liabilities which are classified as at amortised cost, at amortised cost using effective interest method.

Recognition

All regular way purchases and sales of financial assets or liabilities are recognised on the trade date, which is the date on which the Company commits to purchase or sell the financial assets or liabilities. Regular way purchases or sales are purchases or sales of financial assets or liabilities that require delivery of assets within the period generally established by regulation or convention in the market place.

Notes to the Financial Statements (continued)

For the year ended 31 March 2023

Derecognition

The Company derecognises a financial asset 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.

The Company derecognises a financial liability when the obligation specified in the contract is discharged, cancelled or has expired.

Cash and Cash Equivalents

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

Derivative Financial Instruments

Derivative financial instruments used by the Company to manage its exposure to foreign exchange arising from operational, financing and investment activities are accounted for as financial assets or liabilities at fair value through profit or loss.

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

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

Fair Value

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

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

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

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

Offsetting Financial Instruments

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

Expenses Attributable to Any Issue of Shares

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

Foreign Currency Transactions

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

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

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

Interest Income

Interest income from financial assets at fair value through profit or loss are recognised within interest income in the Statement of Comprehensive Income using the effective interest method.

Expenses

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

Taxation

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

Other Receivables

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

Financial Liabilities and Equity

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

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

Notes to the Financial Statements (continued)

For the year ended 31 March 2023

Other Liabilities

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

Segment Information

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

Financing Agreements

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

Financial Guarantee

Financial guarantees require the Company to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition.

3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

Critical Accounting Judgements

Classification of Financial Assets at Fair Value Through Profit or Loss

As described on pages 78-79, classification and measurement of financial assets under IFRS 9 are driven by the entity's business model for managing financial assets and the contractual cash flow characteristics of those financial assets.

As further described on pages 78-79, the contractual cash flow characteristics for loan investments are not solely payments of principal and interest. For the loans held via Stornoway Finance S.à r.l. and ENIV S.à r.l., the Company receives the return for each underlying loan net of expenses and so it is not considered to be a basic lending arrangement under the standard. As such, these loan investments are required to be measured at fair value through profit or loss. The loans held via ENIV S.à r.l. are listed and considered bonds.

In making the judgement regarding Stornoway Finance S.à r.l. and ENIV S.à r.l., the Directors have considered the power the Company has to influence the investment decisions of the Special Purpose Vehicle housing the underlying loans and where the Company holds the majority interest it has been determined that the contractual cash flow characteristics for a basic lending arrangement would be met. However, IFRS 9 also requires an assessment of the business model within which assets are held. In the case of the Company's loan investments the Directors have determined that they monitor and evaluate business performance, manage risk and compensate the Investment Manager based on fair value measures. The business model is therefore not solely for holding and collecting contractual cash flows to maturity and requires all loan investments to be measured at fair value through profit or loss.

The Company's bond investments are classified and measured at fair value through profit or loss in accordance with the above fact pattern.

Were it to be determined that the business model for managing financial assets and the contractual cash flow characteristics of those financial assets were not described above, these assets would be classified and measured at amortised cost with provisions made for expected credits losses and changes to expected credit losses at each reporting date.

Fully let London office asset

Notes to the Financial Statements (continued)

For the year ended 31 March 2023

Key Sources of Estimation Uncertainty

Valuation of Financial Assets at Fair Value Through Profit or Loss

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

The Company has made loans and bonds into structures to gain exposure to real estate secured debt in, but not limited to, the United Kingdom and Western Europe. These loans are not traded in an active market and there are no independent quotes available for these loans. The fair values of financial instruments that are not traded in an active market are determined using valuation techniques such as discounted cash flows models. The rate used to discount future cash flows represents key source of estimation uncertainty that has material impact on the valuation of the investment portfolio. In the absence of market observable inputs, this uncertainty translates into a wide range of appropriate discount rates. The Investment Manager believes that the loan or bond's own initial effective interest rate represents the most appropriate point estimate within that range.

The Investment Manager has considered relevant geopolitical and macro economic factors including the rise of market interest rate and continues to believe that this key judgement remains appropriate due to the bespoke nature of the investment portfolio and the dislocation between the yield of these assets and the market interest rate. The fair value of these loans is linked directly to the value of the real estate loans in the underlying structure the Company invests in, which are determined based on modelled expected cash flows (drawdown principal and interest repayments, and maturity dates) with effective yields ranging from 6.2% to 13.2% (31 March 2022: 5.1% to 13.3%).

As highlighted in the long-term viability section in the Strategic Report, the Investment Manager performed an evaluation of each of its positions, taking into account all relevant geopolitical and macro economic risks, on its operating models and valuations. A detailed cash flow profile of each investment was completed, incorporating the probability of likely delays to repayments, other stress tests (and additional cash needs); these were taken into account in the modelled expected cash flows for 31 March 2023. Adjustments in the fair value of the real estate loans are considered in light of changes in the credit quality of the borrower and underlying property collateral. On origination of the loan, the Investment Manager performs due diligence on the borrower and related security/property. This includes obtaining a valuation of the underlying property (to assess loan-to-value of the investment). In most instances, the terms of the loan require periodic re-valuation of the underlying property to check against loan-to-value covenants.

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

The Company has been closely monitoring this and indeed all other material macro sources of uncertainty related developments, such as inflation, supply chains, and other events (including The Ukraine effect, Covid-19 pandemic, the effects of climate change and cyber security), to ensure that these updated assumptions and any potential impact have been reflected in the valuation of financial assets at fair value through profit or loss as at 31 March 2023. Future valuation might change significantly in the future.

Hotel and golf club house development in the Algarve, Portugal

Notes to the Financial Statements (continued)

For the year ended 31 March 2023

4. Net (Losses)/Gains on Financial Assets and Liabilities at Fair Value Through Profit or Loss

	31 Mar 2023 GBP	31 Mar 2022 GBP
Net gains/(losses)		
Net (losses)/gains on market bond portfolio	(8,155,580)	369,084
Net gains on bilateral loan and bond portfolio	12,621,921	2,373,105
Net (losses)/gains on foreign exchange instruments and other foreign currency transactions	(5,730,490)	2,609,285
Net (losses)/gains on financial assets and liabilities at fair value through profit or loss	**(1,264,149)**	**5,351,474**

5. Operating Expenses

	Note	31 Mar 2023 GBP	31 Mar 2022 GBP
Investment management, administration and depositary fees			
Investment management fees	18	4,296,688	4,367,244
Administration fees	18	276,595	261,584
Depositary fees	18	65,137	65,969
		4,638,420	**4,694,797**
Other operating expenses			
Legal fees		456,542	298,801
Directors' fees		215,000	213,625
Audit fees		140,775	115,250
Corporate secretary fees		96,214	87,761
Registrar fees		60,000	(23,127)
Fees to auditor for non-audit services		39,500	37,500
D&O insurance fees		24,547	(9,558)
Regulatory body expenses		23,732	36,266
Research fees		35,000	60,388
Other expenses		413,932	329,648
		1,505,242	**1,146,554**
Total operating expenses		**6,143,662**	**5,841,351**

The ongoing costs of the Company are shown in the Key Information Document (KID) published on the Company's website. The total figure of 2.23% (31 March 2022: 2.36%) is made up of the Investment Manager's fee of 1.25% (31 March 2022: 1.25%), other ongoing costs of 0.42% (31 March 2022: 0.46%), and finance costs (which are disclosed separately in the financial statements) of 0.56% (31 March 2022: 0.65%). The finance costs may vary and are only incurred to increase the overall returns to investors.

6. Interest Income and Finance Costs

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

	31 Mar 2023 GBP	31 Mar 2022 GBP
Interest income		
Real Estate Credit Investments – market bond portfolio	4,960,473	3,241,955
Real Estate Credit Investments – bilateral loan and bond portfolio	26,747,271	23,729,772
Cash and cash equivalents and other receivables	214,799	10,063
Total interest income	**31,922,543**	**26,981,790**
Finance costs:		
Cost of financing agreements	(3,972,353)	(1,954,553)
Total finance costs	**(3,972,353)**	**(1,954,553)**

7. Dividends

	31 Mar 2023 GBP	31 Mar 2022 GBP
Share dividends		
Fourth dividend for the year ended 31 March 2022/31 March 2021	6,879,974	6,879,974
First dividend for the year ended 31 March 2023/31 March 2022	6,879,974	6,879,974
Second dividend for the year ended 31 March 2023/31 March 2022	6,879,974	6,879,974
Third dividend for the year ended 31 March 2023/31 March 2022	6,879,974	6,879,974
Dividends paid to Shareholders in the year	**27,519,896**	**27,519,896**

The total dividends paid during the financial year ended 31 March 2023 amounted to 12 pence per share (31 March 2022: 12 pence per share).

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

The Directors considered that the Company satisfied the solvency test for all dividend payments during the period from 1 April 2022 to 31 March 2023.

Notes to the Financial Statements (continued)

For the year ended 31 March 2023

8. Earnings per share

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

	31 Mar 2023	31 Mar 2022
Net earnings attributable to shares (GBP)	20,550,319	24,574,377
Weighted average number of shares for the purposes of basic and diluted earnings per share	**229,332,478**	**229,332,478**
Earnings per share		
Basic and diluted (pence)	9.0	10.7

9. Categories of Financial Instruments

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

	31 Mar 2023 GBP	31 Mar 2022 GBP
Assets		
Financial assets at fair value through profit or loss:		
Real Estate Credit Investments – market bond portfolio	49,243,187	98,450,555
Real Estate Credit Investments – bilateral loan and bond portfolio	351,498,723	295,890,549
Investments at fair value through profit or loss	**400,741,910**	**394,341,104**
Derivative financial assets:		
Forward foreign exchange contracts	1,756,118	–
Financial assets at amortised cost:		
Cash and cash equivalents	14,081,343	47,385,138
Cash collateral at broker	2,383,962	5,204,692
Other assets	27,345	22,708
Total assets	**418,990,678**	**446,953,642**
Liabilities		
Financial liabilities at fair value through profit or loss:		
Financing agreements	80,154,134	100,368,732
Derivative financial liabilities:		
Forward foreign exchange contracts	–	1,072,792
Financial liabilities at amortised cost:		
Other liabilities	1,870,637	1,576,634
Total liabilities	**82,024,771**	**103,018,158**

The value of the bond portfolio assets was £231.4 million as at 31 March 2023, excluding accrued interest of £4.3 million (31 March 2022: £282.4 million, excluding accrued interest of £2.1 million).

See Note 16 for a summary of the movement in fair value in the Company's investments for the year.

10. Derivative Contracts

Forward Foreign Exchange Contracts

The following forward foreign exchange contracts were open as at 31 March 2023:

Counterparty	Settlement date	Buy currency	Buy amount	Sell currency	Sell amount	Unrealised gain GBP
The Bank of New York Mellon	19 May 2023	GBP	163,823,152	EUR	(184,070,000)	1,756,118
Unrealised gain on forward foreign exchange contracts						1,756,118

The following forward foreign exchange contracts were open as at 31 March 2022:

Counterparty	Settlement date	Buy currency	Buy amount	Sell currency	Sell amount	Unrealised loss GBP
The Bank of New York Mellon	20 May 2022	GBP	161,432,186	EUR	(192,000,000)	(1,072,792)
Unrealised loss on forward foreign exchange contracts						(1,072,792)

11. Other Liabilities

	31 Mar 2023 GBP	31 Mar 2022 GBP
Investment management, depositary and administration fees payable		
Investment management fees payable	358,118	365,525
Depositary fees payable	33,090	27,086
Administration fees payable	41,939	48,392
	433,147	441,003
Other operating payables		
Interest payable	287,023	193,902
Registrar fees payable	88,917	28,917
Legal fees payable	73,800	27,199
Directors' fees payable	53,750	48,812
Audit fees payable	30,775	85,250
Corporate secretary fees payable	18,750	18,750
Research fees payable	17,644	17,839
Other expense accruals	866,831	714,962
	1,437,490	1,135,631
Total liabilities	**1,870,637**	**1,576,634**

Notes to the Financial Statements (continued)

For the year ended 31 March 2023

12. Structured Entities Not Consolidated

As at 31 March 2023 and 31 March 2022, the Company had an interest in the following structured entities. The Company has concluded that the unlisted entities in which it invests, but that it does not consolidate, meet the definition of structured entities because:

- the Company has obtained funds for the purpose of providing investors with investment management services;
- the Company's business purpose, which was communicated directly to investors, is investing solely for returns from capital appreciation and investment income; and
- the performance of investments is measured and evaluated on a fair value basis.

This conclusion will be reassessed on an annual basis, if any of these criteria or characteristics change.

As a result, the Company recognises its interests in structured entities as investments at fair value through profit or loss in accordance with IFRS 10 and therefore there is no requirement to consolidate in full. However, in line with IFRS 12 Disclosure of Interest in Other Entities, the details of the interests in the unconsolidated structured entities are disclosed below. The maximum exposure to loss is the carrying amount of the financial assets held which is equal to the fair value of loans and units in funds as at 31 March 2023 and 31 March 2022.

31 March 2023

Name	Fair value of loans*** GBP	Undrawn commitment GBP	Nature and purpose of the entity	Location	Equity held	Percentage held	Other exposure*
Real Estate Loan Funding (RELF)**							
Earlsfield	12,612,167	707,833	To invest in Earlsfield real estate	United Kingdom	No	– %	No
Kensington	8,896,085	10,737,000	To invest in Kensington real estate	United Kingdom	No	– %	No
Lifestory	8,215,843	4,434,157	To invest in Lifestory real estate	Luxembourg	No	– %	No
Pamplona	3,084,772	1,469,228	To invest in Pamplona real estate	Luxembourg	No	– %	No
Ruby	2,807,680	8,577,320	To invest in Ruby real estate	Luxembourg	No	– %	No
Cheyne French Funding Sub-Fund 3	11,650,667	3,630,876	To invest in Cheyne French Funding Sub-Fund 3 real estate	France	No	– %	No
Cheyne French Funding Sub-Fund 8	22,663,417	7,788,478	To invest in Cheyne French Funding Sub-Fund 8 real estate	France	No	– %	No
Cheyne French Funding Sub-Fund 9	8,470,707	2,477,156	To invest in Cheyne French Funding Sub-Fund 9 real estate	France	No	– %	No

* Other exposure indicates if the investment in the structured entity comes with any associated potential valuation uplift. These can include, but are not limited to: profit share, variable exit fees, and exposure to enterprise value uplift.
** The total loan exposure on RELF includes financing within the RELF structure.
*** This amount excludes interest receivables.

31 March 2022

Name	Fair value of loans*** GBP	Undrawn commitment GBP	Nature and purpose of the entity	Location	Equity held	Percentage held	Other exposure*
Real Estate Loan Funding (RELF)**							
Earlsfield	6,665,679	6,687,513	To invest in Earlsfield real estate	United Kingdom	No	– %	No
Cheyne French Funding Sub-Fund 3	8,418,393	6,278,159	To invest in Cheyne French Funding Sub-Fund 3 real estate	France	No	– %	No
Cheyne French Funding Sub-Fund 7	339,932	665,701	To invest in Cheyne French Funding Sub-Fund 7 real estate	France	No	– %	No
Cheyne French Funding Sub-Fund 8	15,806,040	13,480,123	To invest in Cheyne French Funding Sub-Fund 8 real estate	France	No	– %	No
Cheyne French Funding Sub-Fund 9	7,206,459	3,322,312	To invest in Cheyne French Funding Sub-Fund 9 real estate	France	No	– %	No

* Other exposure indicates if the investment in the structured entity comes with any associated potential valuation uplift. These can include, but are not limited to: profit share, variable exit fees, and exposure to enterprise value uplift.
** The total loan exposure on RELF includes financing within the RELF structure.
*** This amount excludes interest receivables.

The Company did not provide support/assistance without a contractual obligation to do so during the year other than as part of normal investment activity, and the Company has no intention to provide support/assistance to the entities.

Notes to the Financial Statements (continued)

For the year ended 31 March 2023

13. Financing Agreements

The Company enters into repurchase agreements with several banks to provide leverage. This financing is collateralised against certain of the Company's bond portfolio assets with a fair value totalling £139.9 million (31 March 2022: £212.7 million) and a weighted average cost of 5.86% (31 March 2022: 1.2%) per annum. The contractual maturity period of the repurchase arrangements is 3 to 6 months (31 March 2022: 3 to 6 months).

This short-term financing is shown as a current liability in the Statement of Financial Position whereas the collateralised assets are shown as non-current. The movement in financing agreement amounting to £22.5 million (31 March 2022: £20.6 million) and finance cost amounting to £1.6 million (31 March 2022: £1.9 million) are shown as financing activity in the Statement of Cash Flows.

During the financial year ended 31 March 2023, the Company continued to maintain some off-balance sheet financing agreements. These facilities entered into during the previous financial year do not have recourse to the Company, and the lending is structured using off-balance entities, and secured against the specific loans involved. The aggregate amount of these off-balance sheet loans as at 31 March 2023 was £20.6 million (31 March 2022: £2.8 million).

During the financial year ended 31 March 2023, the Company also entered into an off-balance sheet financing agreement which does have partial recourse to the Company. The amount of partial recourse commitment as at 31 March 2023 was £2.9 million (31 March 2022: £Nil). No expected loss from providing this guarantee has been recognised in these financial statements and no additional collateralisation has been paid as of year end.

14. Share Capital

The issued share capital of the Company consists of shares and its capital as at the year end is represented by the net proceeds from the issuance of shares and profits retained up to that date. The Company does not have any externally imposed capital requirements. As at 31 March 2023, the Company had capital of £337.0 million (31 March 2022: £343.9 million).

	31 Mar 2023 Number of Shares	31 Mar 2022 Number of Shares
Authorised Share Capital		
Shares of no par value each	Unlimited	Unlimited
Shares issued and fully paid		
Balance at the start of the year	229,332,478	229,332,478
Balance at the end of the year	**229,332,478**	**229,332,478**

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to Shareholders. The Company's overall strategy was outlined in the Prospectus which is published on the Company's website. The capital structure of the Company consists of the equity of the Company as disclosed in the Statement of Changes in Equity.

15. Financial Instruments and Associated Risks

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

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

(a) Market Risk

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

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

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

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

(i) Currency Risk

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

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

The Company manages its foreign exchange exposure forward foreign exchange contracts. These instruments are detailed in Note 10.

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

As at 31 March 2023:	Monetary Assets GBP	Monetary Liabilities GBP	Forward Foreign Currency Exchange Contracts GBP	Net currency exposure GBP
Currency				
GBP	242,499,869	(60,997,713)	163,823,152	345,325,308
EUR	174,728,260	(21,027,058)	(162,067,034)	(8,365,832)
USD	6,431	–	–	6,431
	417,234,560	**(82,024,771)**	**1,756,118**	**336,965,907**

As at 31 March 2022:	Monetary Assets GBP	Monetary Liabilities GBP	Forward Foreign Currency Exchange Contracts GBP	Net currency exposure GBP
Currency				
GBP	236,062,842	(50,234,754)	161,432,186	347,260,274
EUR	210,880,008	(51,710,612)	(162,504,978)	(3,335,582)
USD	10,792	–	–	10,792
	446,953,642	**(101,945,366)**	**(1,072,792)**	**343,935,484**

Notes to the Financial Statements (continued)

For the year ended 31 March 2023

As at 31 March 2023, had the GBP strengthened by 5% or 10% in relation to all currency exposure of the Company with all other variables held constant, the equity of the Company and the net profit/(loss) per the Statement of Comprehensive Income would have changed by the amounts shown below. The analysis is performed on the same basis for 2022.

By 5%	31 Mar 2023 GBP	31 Mar 2022 GBP
EUR	(418,292)	(166,779)
USD	322	540
Total	**(417,970)**	**(166,239)**

By 10%	31 Mar 2023 GBP	31 Mar 2022 GBP
EUR	(836,583)	(333,558)
USD	643	1,079
Total	**(835,940)**	**(332,479)**

A 5% or 10% weakening of the GBP against the above currencies would have resulted in an equal but opposite effect on the equity of the Company and net profit/(loss) per the Statement of Comprehensive Income to the amounts shown above, on the basis that all other variables remained constant.

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

(ii) Interest Rate Risk

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

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

The Company invests in fixed and floating rate real estate related debt assets (which includes loans and bonds). Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cash flow.

A fundamental principle of bond investing is that market interest rates and bond prices generally move in opposite directions. When market interest rates rise, prices of fixed-rate bonds fall. However, as explained under the key sources of estimation uncertainty in Note 3, the Investment Manager believes that the loan or bond's own initial effective interest rate represents the most appropriate rate to discount future cash flows. The use of this judgement limits the impact of the fluctuations in market interest rates on the valuation of the bilateral bonds and loans portfolio.

The Investment Manager has considered relevant geopolitical and macro economic factors including the rise of market interest rate during the year and continues to believe that this key judgement remains appropriate due to the bespoke nature of the investment portfolio and the dislocation between the yield of these assets and the market interest rate.

Had movement in market interest rates been fully reflected in the valuation of fixed-rate assets held by the Company, the estimated impact of a rise of 1% (100 basis points) or 5% (500 basis points) (31 March 2022: 1% (100 basis points) or 5% (500 basis points)) on the net asset value ("NAV") of the Company, is a decrease of £6.3 million or £31.7 million (31 March 2022: £3.7 million or £18.3 million), respectively. A decrease in interest rates by 100 basis points or 500 basis points is estimated to result in an increase in the NAV of the Company by a similar amount. These estimates are calculated based on the fair value of the fixed-rate securities including accrued interest held by the Company as at 31 March 2023 and 31 March 2022, and their weighted average lives.

The interest rate profile of the Company as at 31 March 2023 was as follows:

	Fixed GBP	Floating GBP	Non-interest bearing GBP	Total GBP
Financial assets at fair value through profit or loss	287,268,165	99,067,135	14,406,610*	400,741,910
Cash and cash equivalents	–	14,081,343	–	14,081,343
Cash collateral at broker	–	2,383,962	–	2,383,962
Derivative financial assets				
– forward foreign exchange contracts	–	–	1,756,118	1,756,118
Other assets	–	–	27,345	27,345
Financing agreements	–	(80,154,134)	–	(80,154,134)
Other liabilities	–	–	(1,870,637)	(1,870,637)
Total	**287,268,165**	**35,378,306**	**14,319,436**	**336,965,907**

* Accrued interest related to financial assets at fair value through profit or loss.

The maturity profile of the Company as at 31 March 2023 was as follows:

	Within one year GBP	One to five years GBP	Over five years GBP	Total GBP
Financial assets at fair value through profit or loss	81,576,013	150,257,260	168,908,637	400,741,910
Cash and cash equivalents	14,081,343	–	–	14,081,343
Cash collateral at broker	2,383,962	–	–	2,383,962
Derivative financial assets				
– forward foreign exchange contracts	1,756,118	–	–	1,756,118
Other assets	27,345	–	–	27,345
Financing agreements	(80,154,134)	–	–	(80,154,134)
Other liabilities	(1,870,637)	–	–	(1,870,637)
Net Assets	**17,800,010**	**150,257,260**	**168,908,637**	**336,965,907**

Notes to the Financial Statements (continued)

For the year ended 31 March 2023

The interest rate profile of the Company as at 31 March 2022 was as follows:

	Fixed GBP	Floating GBP	Non-interest bearing GBP	Total GBP
Financial assets at fair value through profit or loss	292,129,354	90,070,215	12,141,535*	394,341,104
Cash and cash equivalents	–	47,385,138	–	47,385,138
Cash collateral at broker	–	5,204,692	–	5,204,692
Other assets	–	–	22,708	22,708
Financing agreements	–	(100,368,732)	–	(100,368,732)
Derivative financial assets				
– forward foreign exchange contracts	–	–	(1,072,792)	(1,072,792)
Other liabilities	–	–	(1,576,634)	(1,576,634)
Total	**292,129,354**	**42,291,313**	**9,514,817**	**343,935,484**

* Accrued interest related to financial assets at fair value through profit or loss.

The maturity profile of the Company as at 31 March 2022 was as follows:

	Within one year GBP	One to five years GBP	Over five years GBP	Total GBP
Financial assets at fair value through profit or loss	82,272,397	121,831,664	190,237,043	394,341,104
Cash and cash equivalents	47,385,138	–	–	47,385,138
Cash collateral at broker	5,204,692	–	–	5,204,692
Other assets	22,708	–	–	22,708
Financing agreements	(100,368,732)	–	–	(100,368,732)
Derivative financial assets				
– forward foreign exchange contracts	(1,072,792)	–	–	(1,072,792)
Other liabilities	(1,576,634)	–	–	(1,576,634)
Net Assets	**31,866,777**	**121,831,664**	**190,237,043**	**343,935,484**

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

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as "IBOR reform"). As at 31 March 2023, it is still unclear when the announcement that will set a date for the termination of the publication of IBORs will take place. Nevertheless, the Company has updated provisions for all IBOR indexed exposures as at 31 March 2023. As the Company has minimal IBOR exposure, IBOR reform does not have any significant impact on the Company's financial statements.

(b) Credit Risk

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

The Company has credit exposure in relation to its financial assets. The Company invested in financial assets with The Bank of New York Mellon with the credit quality of AA- (31 March 2022: AA-) according to Standard and Poor's.

The Company's maximum exposure to credit risk for financial assets is as follows:

Instrument	31 Mar 2023 GBP	31 Mar 2022 GBP
Financial assets at fair value through profit or loss	400,741,910	394,341,104
Cash and cash equivalents	14,081,343	47,385,138
Cash collateral at broker	2,383,962	5,204,692
Derivative financial assets	1,756,118	–
Total	**418,963,333**	**446,930,934**

Market Bond Portfolio

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

Bilateral Loan and Bond Portfolio

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

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

The Company's total investment in bilateral loan and bond portfolio as at 31 March 2023, amounted to £337.4 million (31 March 2022: £284.4 million) which excludes any interest accrued on loans and bonds at this date.

Notes to the Financial Statements (continued)

For the year ended 31 March 2023

Derivative Contracts

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

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

Below are the derivative assets by counterparty and details of the collateral received and pledged by the Company as at 31 March 2023:

Derivative Type	Counterparty	Value of derivative assets GBP	Collateral received GBP	Collateral pledged GBP	Net (if greater than zero) GBP
Forward foreign exchange contracts	The Bank of New York Mellon	1,756,118	–	–	1,756,118

Below are the derivative liabilities by counterparty and details of the collateral received and pledged by the Company as at 31 March 2022:

Derivative Type	Counterparty	Value of derivative liabilities GBP	Collateral received GBP	Collateral pledged* GBP	Net (if greater than zero) GBP
Forward foreign exchange contracts	The Bank of New York Mellon	(1,072,792)	–	1,072,792	–

* Over collateralisation is not presented in this table. The amount of collateral reflected is limited to the amount of the derivative liabilities.

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

Custody

The Company monitors its credit risk by monitoring the credit quality of The Bank of New York Mellon (International) Limited, as reported by Standard & Poor's or Moody's.

If the credit quality or the financial position of The Bank of New York Mellon (International) Limited were to deteriorate significantly, the Investment Manager will seek to move the Company's assets to another bank. The Bank of New York Mellon (International) Limited is a Trust Company with a credit quality of Aa2 at the reporting date (31 March 2022: Aa2) according to Moody's.

(c) Liquidity Risk

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

The following tables detail the current and long-term financial liabilities of the Company at the year end date:

As at 31 March 2023:	Less than 1 month GBP	1-3 months GBP	3 months to 1 year GBP	Greater than 1 year GBP
Financial liabilities excluding derivatives				
– Financing agreements	26,808,659	41,612,299	11,733,176	–
– Other liabilities	–	1,870,637	–	–
	26,808,659	**43,482,936**	**11,733,176**	**–**

As at 31 March 2022:	Less than 1 month GBP	1-3 months GBP	3 months to 1 year GBP	Greater than 1 year GBP
Financial liabilities excluding derivatives				
– Financing agreements	17,803,852	72,328,125	10,236,755	–
– Other liabilities	–	1,576,634	–	–
	17,803,852	**73,904,759**	**10,236,755**	**–**

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

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

(d) Valuation of Financial Instruments

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

Notes to the Financial Statements (continued)

For the year ended 31 March 2023

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

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

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

As at 31 March 2023:	Level 1 GBP	Level 2 GBP	Level 3 GBP	Total GBP
Current assets				
Forward foreign exchange contracts	–	1,756,118	–	1,756,118
Non-current assets				
Real Estate Credit Investments – market bond portfolio	–	29,763,268	19,479,919	49,243,187
Real Estate Credit Investments – bilateral loan and bond portfolio	–	–	351,498,723	351,498,723
Total non-current assets	–	29,763,268	370,978,642	400,741,910
Current liabilities				
Real Estate Credit Investments – repurchase agreements	–	(80,154,134)*	–	(80,154,134)
	–	**(48,634,748)**	**370,978,642**	**322,343,894**

* Includes repurchase agreements related to Level 3 investments.

As at 31 March 2022:	Level 1 GBP	Level 2 GBP	Level 3 GBP	Total GBP
Non-current assets				
Real Estate Credit Investments – market bond portfolio	–	98,450,555	–	98,450,555
Real Estate Credit Investments – bilateral loan and bond portfolio	–	–	295,890,549	295,890,549
Total non-current assets	–	98,450,555	295,890,549	394,341,104
Current liabilities				
Forward foreign exchange contracts	–	(1,072,792)	–	(1,072,792)
Real Estate Credit Investments – repurchase agreements	–	(100,368,732)*	–	(100,368,732)
	–	**(2,990,969)**	**295,890,549**	**292,899,580**

* Includes repurchase agreements related to Level 3 investments.

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

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

The fair value of the repurchase agreements is valued at cost or principal and is included in Level 2 of the fair value hierarchy.

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

As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. In cases where material discounts are applied, the positions will be valued as Level 3.

The Company obtains pricing reports from independent vendors for bonds where prices are not directly observable in the market. These bonds are classified as Level 3 in the fair value hierarchy. Please refer to Valuation of Financial Assets at Fair Value Through Profit or Loss in Note 3 for further details which describes the weighting of the valuation between observable prices from comparable bonds and the valuation result based on proprietary sector curve discount yields is a key unobservable input in deriving fair value of the investments. A 50% weighting to each data point has been applied and the fair value range generated by the two approaches is £0.2 million (31 March 2022: £2.5 million). The sector curve discount yields used range from 4.8% to 11.9% (31 March 2022: 4.0% to 14.0%). Applying a discount yield +/-2% to the valuation would reduce/increase the fair value at 31 March 2023 by £(1.7) million and £1.6 million (31 March 2022: £(2.5) million and £2.6 million) respectively.

The Company makes loans into structures to gain exposure to real estate secured debt in the United Kingdom and Western Europe. These loans are not traded in an active market and there are no independent quotes available for these loans. Such holdings are classified as Level 3 investments. The fair value of these loans is linked directly to the value of the real estate loans that the underlying structures invests in, which are determined based on modelled expected cash flows (drawdown principal and interest repayments, and maturity dates) with effective yields ranging from 6.2% to 13.2% (31 March 2022: 5.1% to 13.3%) (the unobservable input).

Fair value of the real estate loans is adjusted for changes in the credit quality of both the borrower and the underlying property collateral, and changes in the market rate on similar instruments where changes are material. No material movements on the fair value of the real estate loans have been identified and the par value of the loans was used. On origination of the loan, the Investment Manager performs due diligence on the borrower and related security/property. This includes obtaining a valuation of the underlying property (to assess loan-to-value of the investment). In most instances, the terms of the loan require periodic revaluation of the underlying property to check against loan-to-value covenants. All the fees associated with the investments (arrangement fees, exit fees, etc.) are paid directly to the Company and not paid to the Investment Manager.

Previously, many of the Company's investments in loans were made through a Luxembourg based entity, Stornoway Finance S.à r.l. via loan note instruments. The majority of the Company's investments are now made through another Luxembourg based entity, ENIV S.à r.l. via separate note instruments. As and when market information, such as market prices from recognised financial data providers becomes available, the Company will assess the impact on its portfolio of loans and whether there should be any transfers between levels in the fair value hierarchy.

As at 31 March 2023, the Investment Manager has taken into account movements in market rates, any indications of impairment, significant credit events or significant negative performance of the underlying property structures, which might affect the fair value of the loans and bonds. Please refer to page 94 for the effects of movement in market rates.

Notes to the Financial Statements (continued)

For the year ended 31 March 2023

Level 3 Reconciliation

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

	Level 3 31 Mar 2023 GBP	Level 3 31 Mar 2022 GBP
Financial assets at fair value through profit or loss		
Opening balance	295,890,549	321,199,802
Total gains recognised in the Statement of Comprehensive Income for the year	10,170,687	2,260,608
Purchases	167,591,125	81,589,656
Sales	(118,994,111)	(109,625,571)
Increase in interest receivable	2,619,692	466,054
Transfer in to Level 3	13,700,700	–
Closing balance	370,978,642	295,890,549
Unrealised gain/(loss) on investments classified as Level 3 at year end	**3,840,715**	**(688,552)**

(e) Prepayment and Re-Investment Risk

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

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

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

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

16. Segmental Reporting

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

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

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

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

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

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

Year ended 31 March 2023:	Market Bond Portfolio GBP	Bilateral Loan and Bond Portfolio GBP	Total GBP
Interest income	4,960,473	26,962,070	31,922,543
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	(8,155,580)	12,621,921	4,466,341
Reportable segment (loss)/profit	**(3,195,107)**	**39,583,991**	**36,388,884**
Finance costs	**(1,783,805)**	**(2,188,548)**	**(3,972,353)**

Year ended 31 March 2022:	Market Bond Portfolio GBP	Bilateral Loan and Bond Portfolio GBP	Total GBP
Interest income	3,241,985	23,739,806	26,981,791
Net gain on financial assets and liabilities at fair value through profit or loss	369,084	2,373,104	2,742,188
Reportable segment profit	**3,611,069**	**26,112,910**	**29,723,979**
Finance costs	**(514,412)**	**(1,440,141)**	**(1,954,553)**

Year ended 31 March 2023:	Market Bond Portfolio GBP	Bilateral Loan and Bond Portfolio GBP	Total GBP
Reportable segment assets	49,243,187	351,498,723	400,741,910
Non-segmental assets	–	–	18,248,768
Financing agreements	(36,015,629)	(44,138,505)	(80,154,134)
Non-segmental liabilities	–	–	(1,870,637)
Net assets			336,965,907

Year ended 31 March 2022:	Market Bond Portfolio GBP	Bilateral Loan and Bond Portfolio GBP	Total GBP
Reportable segment assets	98,450,555	295,890,549	394,341,104
Non-segmental assets	–	–	52,612,538
Financing agreements	(51,702,018)	(48,666,714)	(100,368,732)
Non-segmental liabilities	–	–	(2,649,426)
Net assets			343,935,484

Notes to the Financial Statements (continued)

For the year ended 31 March 2023

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

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

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

	31 Mar 2023 GBP	31 Mar 2022 GBP
Reportable segment profit	36,388,884	29,723,979
Net (losses)/gains on foreign exchange instruments and other foreign currency transactions	(5,730,490)	2,609,285
Other income	7,940	37,017
	30,666,334	32,370,281
Operating expenses	(6,143,662)	(5,841,351)
Finance costs	(3,972,353)	(1,954,553)
Net profit	**20,550,319**	**24,574,377**

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

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

	31 Mar 2023 GBP	31 Mar 2022 GBP
Reportable segment assets	400,741,910	394,341,104
Cash and cash equivalents	14,081,343	47,385,138
Cash collateral at broker	2,383,962	5,204,692
Derivative financial assets	1,756,118	–
Other assets	27,345	22,708
	418,990,678	**446,953,642**

The following is a summary of the movements in the Company's investments analysed by the Loan and Bond Portfolios for the year ended 31 March 2023:

Year ended 31 March 2023:	Market Bond Portfolio GBP	Bilateral Loan and Bond Portfolio GBP	Total GBP
Financial assets at fair value through profit or loss			
Opening fair value	98,450,555	295,890,549	394,341,104
Purchases	–	158,644,471	158,644,471
Repayments/sales proceeds	(40,697,172)	(118,277,909)	(158,975,081)
(Decrease)/increase in interest receivable	(354,617)	2,619,692	2,265,075
Realised loss on sales	(4,547,798)	(5,408,771)	(9,956,569)
Net movement in unrealised (loss)/gain on investments at fair value through profit or loss	(3,607,781)	18,030,691	14,422,910
Closing fair value	**49,243,187**	**351,498,723**	**400,741,910**

The following is a summary of the movements in the Company's investments analysed by the Loan and Bond Portfolios for the year ended 31 March 2022:

Year ended 31 March 2022:	Market Bond Portfolio GBP	Bilateral Loan and Bond Portfolio GBP	Total GBP
Financial assets at fair value through profit or loss			
Opening fair value	80,359,507	310,081,379	390,440,886
Purchases	31,500,000	81,589,656	113,089,656
Repayments/sales proceeds	(14,447,591)	(109,625,571)	(124,073,162)
Increase in interest receivable	669,555	11,471,980	12,141,535
Realised loss on sales	(390,363)	(99,945)	(490,308)
Net movement in unrealised gain on investments at fair value through profit or loss	759,447	2,473,050	3,232,497
Closing fair value	**98,450,555**	**295,890,549**	**394,341,104**

17. Cash Collateral

The Company manages some of its financial risks through the use of financial derivative instruments which are subject to collateral requirements. As at 31 March 2023, a total of £2.4 million (31 March 2022: £5.2 million) was due from various financial institutions under the terms of the relevant arrangements. The cash held by brokers is restricted and is shown as Cash collateral at broker on the Statement of Financial Position.

Notes to the Financial Statements (continued)

For the year ended 31 March 2023

18. Material Agreements and Related Party Transactions

Loan Investments

Previously, many of the Company's investments in loans were made through a Luxembourg based entity, Stornoway Finance S.à r.l. via loan note instruments. The loan investments are now made through another Luxembourg based entity, ENIV S.à r.l. via separate note instruments. This entity has separate compartments for each loan deal which effectively ringfences each loan deal. Other funds managed by the Investment Manager may invest pari passu in these compartments.

Investment Manager

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

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

Management Fee

Under the terms of the Investment Management Agreement, the Investment Manager is entitled to receive from the Company an annual Management Fee of 1.25% on an adjusted NAV, being the NAV of the shares.

During the year ended 31 March 2023, the Management Fee totalled £4.3 million (31 March 2022: £4.4 million), of which £0.4 million (31 March 2022: £0.4 million) was outstanding at the year end.

Performance Fee

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

A = the Adjusted Performance NAV per share, as defined in the Prospectus.

B = the NAV per share as at the first business day of the Performance Period increased by a simple annual rate of return of 7% over the Performance Period or, if no Performance Fee was payable in the previous Performance Period, the NAV per share on the first business day of the Performance Period immediately following the last Performance Period in which a Performance Fee was paid (the "Starting Date") increased by a simple annual rate of return of 7% over the period since the Starting Date ("Hurdle Assets").

C = the time weighted average number of shares in issue in the period since the Starting Date.

On 1 October 2021, the Company entered a new Performance Period which is expected to run until the end date of the quarter in which the next continuation resolution is passed. As no Performance Fee was payable in the previous Performance Period, the NAV on which the Hurdle Assets will be determined in accordance with the above formula was the NAV per share of £1.63 as at 2 October 2017 (being the Starting Date of the Performance Period immediately following the last Performance Period in which a Performance Fee was paid).

During the year ended 31 March 2023 and 31 March 2022, there were no performance fees accrued.

Administration Fee

Under the terms of the Administration Agreement, the Administrator is entitled to receive from the Company a monthly administration fee based on the prior month gross assets of the Company adjusted for current month subscriptions and redemptions of the Company at the relevant basis points per annum rate, subject always to a minimum monthly fee £10,000.

During the year ended 31 March 2023, the administration fee totalled £276,595 (31 March 2022: £261,584), of which £41,939 (31 March 2022: £48,392) was outstanding at the year end.

Depositary Fee

Under the terms of the Depositary Agreement, the Depositary is entitled to receive from the Company an annual Depositary fee of 0.02% (31 March 2022: 0.02%) of the NAV of the Company. During the year ended 31 March 2023, the Depositary fee totalled £65,137 (31 March 2022: £65,969). The Company owed £33,090 (31 March 2022: £27,086) to the Depositary at the year end date.

19. Contingencies and Commitments

As at 31 March 2023, the Company had committed £572.0 million into bilateral loans and bonds of which £367.8 million had been funded (31 March 2022: £522.9 million commitment of which £284.4 million had been funded).

During the financial year ended 31 March 2023, the Company entered into some off-balance sheet financing agreements which have partial recourse to the Company. The amount of partial recourse commitment as at 31 March 2023 was £2.9 million (31 March 2022: £Nil).

20. Subsequent Events

The Directors declared a dividend of 3 pence per share on 21 June 2023.

Since 1 April 2023, RECI received a total of £17.0 million from 2 loans that have repaid.

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

21. Foreign Exchange Rates Applied to Combined Totals Used in the Preparation of the Financial Statements

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

Currency	31 Mar 2023 GBP	31 Mar 2022 GBP
EUR	1.14	1.18
USD	1.24	1.32

22. Approval of the Financial Statements

The Annual Report and audited financial statements of the Company were approved by the Directors on 21 June 2023.

Appendix I – AIFM Remuneration Policy (Unaudited)

Annual Remuneration Disclosure for the Year to 31 March 2023

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

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

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

Cheyne was authorised as an AIFM on 22 July 2014. The quantitative disclosures required under Article 22 of AIFMD in accordance with the European Securities and Markets Authority ("ESMA") guidance for the year ended 31 March 2023, in respect of remuneration derived from the AIF are as follows:

Business Area	Number of Code Staff	AIFM Total Remuneration (all variable)	Code Staff relevant to the AIF	Remuneration derived from the AIF (all variable)	Deferred Remuneration derived from the AIF
Portfolio Management	29	£29,182,131	7	£1,283,214	£280,872
Senior Management	6	£12,014,016	6	£456,120	£119,605
Total	**35**	**£41,196,147**	**13**	**£1,739,334**	**£400,477**

Remuneration Code information is provided as required under the FCA Rules.

Appendix II – AIFM Leverage (Unaudited)

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

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

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

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

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

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

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

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

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

Leverage is limited to 500% of NAV of the Company under both the Gross and Commitment approaches. Up to 31 March 2023, the maximum leverage calculated has been 166.91% for the Gross Approach and 123.99% for the Commitment Approach. In the year ended 31 March 2022, the maximum leverage calculated has been 161.99% for the Gross Approach and 130.06% for the Commitment Approach.

Glossary

Asset Strategy definitions

Core	Assets that benefit from having long-term income.
Core +	Assets that benefit from having strong current income, but do require some measure of asset management to optimise their income profile and term.
Value add/transitional	Assets that require asset management (typically refurbishment) and re-letting to secure a core income profile.
Development	Groundworks/Superstructure assets that are to be built from the ground up and are in the groundworks stage or building the superstructure has commenced. These typically already benefit from the requisite consent to develop.
Development	Fit-Out – assets that have either been built from the ground up and have reached the completion of the superstructure ("topped out"), or assets which are in need of substantial refurbishment works. These typically already benefit from the requisite consent to develop.
Development	De-Risked – development assets which benefit from being substantially pre-sold or pre-let.
Real Estate Op-Co/Prop-Co Loan	Loan secured by both the operating company as well as all of the Company's real assets.

Performance Measures

NAV per share	The net asset value of the Company divided by the number of shares in issuance at the relevant reporting date.
Total NAV Return	The return on the movement in the NAV per share at the end of the period together with all the dividends paid during the period, divided by the NAV per share at the beginning of the period/year.
Share Price Premium/Discount	The percentage difference between the NAV per share and the quoted price of each share as at the relevant reporting date.
Dividend Yield	The total dividends paid in the reporting period (per share) divided by the quoted price of each share as at the relevant reporting date.
Market capitalisation	The number of shares in issuance at the relevant reporting date divided by the share price at the relevant reporting date.

Directors and Advisers

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Bob Cowdell (Chairman)
Susie Farnon
John Hallam
Colleen McHugh

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Notes

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