

Real Estate Credit Investments Limited

# Annual Report and Accounts

2024



**RECI**  
REAL ESTATE CREDIT  
INVESTMENTS



Annual Report and Accounts 2024

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

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



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Providing compelling risk-adjusted returns

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RECI continues to deliver a robust Net Asset Value ("NAV") and attractive quarterly dividends of 3 pence per share

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OVERVIEW  
AS AT 31 MARCH 2024

# Overview and Highlights

## What Do We Offer

**Defensive credit exposure to UK and Western European real estate markets**

- Stable and uninterrupted dividends delivered consistently since October 2013

**Granular portfolio with detailed disclosure**

- 31 positions
- Diverse portfolio across sectors and geography

**Attractive and stable income in a changing interest rate environment**

- Consistent portfolio yield of 9%+ 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

Net Assets

**£326.4m**

(31 March 2023: £337.0m)

NAV per Share

**£1.45**

(31 March 2023: £1.47)



Total Assets

**£352.3m**

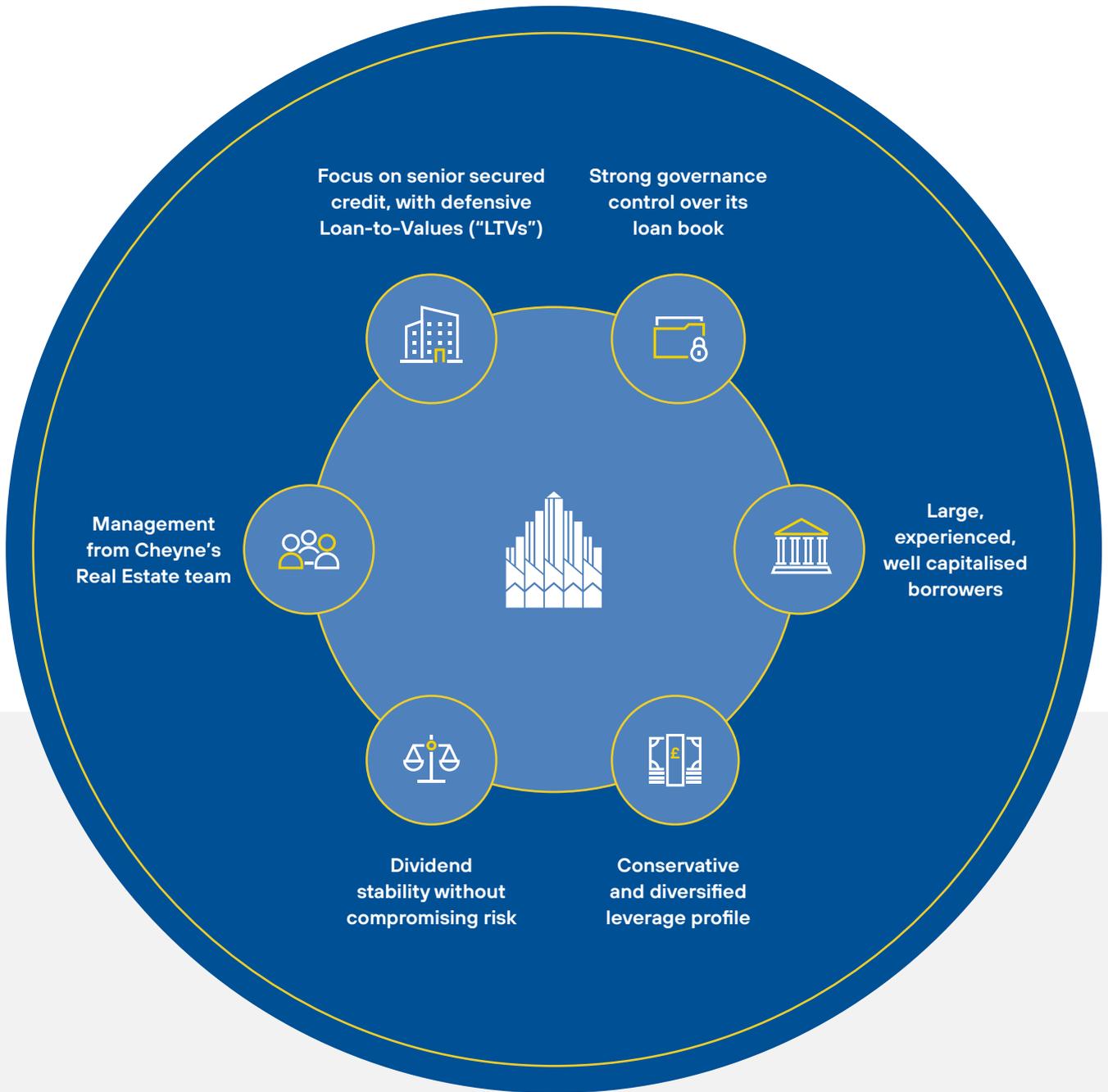
(31 March 2023: £419.0m)

Net Profit

**£21.9m**

(Full year ended 31 March 2023: £20.6m profit)

# RECI Offers:



**Total NAV Return**  
**7.0%**  
(31 March 2023: 6.2%)

**Dividend Yield**  
**10.4%**  
(31 March 2023: 9.0%)

**Share Price**  
**£1.15**  
(31 March 2023: £1.34)

**Dividends**  
**12.0 pence**  
(31 March 2023: 12.0 pence)

## OVERVIEW

# At a Glance

Our investment strategy provides compelling risk-adjusted returns.

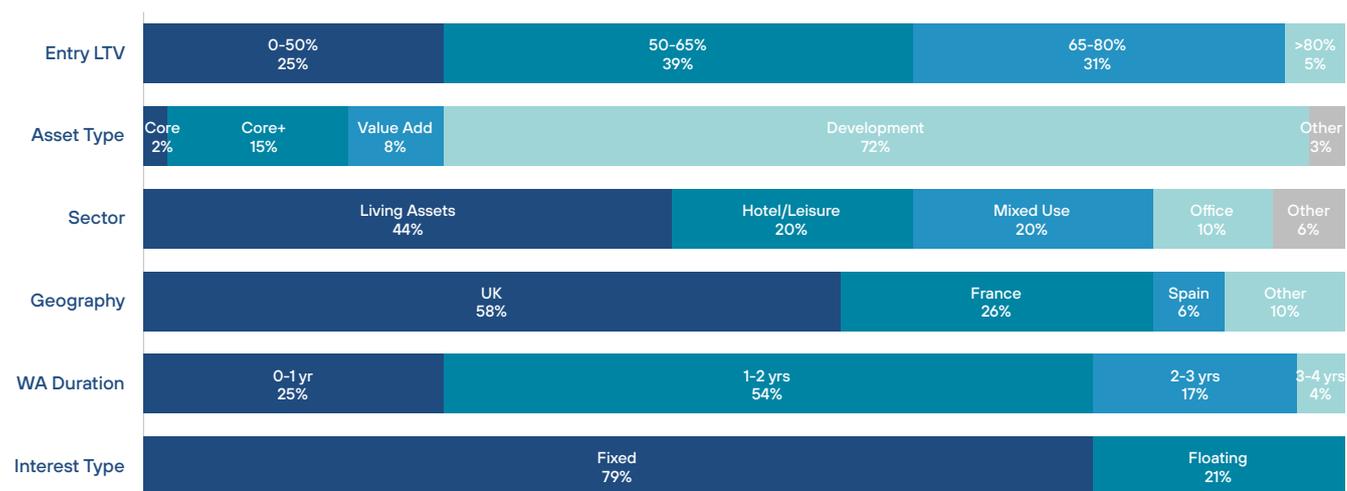
Real Estate Credit Investments ("RECI" or the "Company") is a closed-ended investment company which originates and invests in real estate debt secured by commercial or residential properties in Western Europe, focusing primarily on the United Kingdom, France and Spain.

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

RECI's investments are predominantly in Self-Originated Loans and Bonds. The Company also holds a small portfolio of Market Bonds (listed real estate debt securities such as Commercial Mortgage Backed Securities ("CMBS")).

## Investment Portfolio Composition

RECI's investment portfolio, a diversified book of 31 positions in real estate bonds and loans, was valued at £329.4 million including accrued interest, as at 31 March 2024, down from £400.7 million as at 31 March 2023. The portfolio had a weighted average levered yield of 10.2% and a loan-to-value ratio of 64.9% as at 31 March 2024.



## Portfolio by Geography

by % of Total Committed Capital including PIK

Country	Allocation March 2024 %	Change since March 2023 %
United Kingdom	57.8	(0.5)
France	26.4	2.6
Spain	5.9	(1.6)
Finland	4.1	0.4
Ireland	1.9	0.4
Italy	1.0	(0.2)
Germany	2.9	1.8

Icons denote Cheyne Real Estate Offices in Berlin, Dublin, London, Madrid and Paris.



## Share Price vs NAV per Share

Performance (Pence)



### NAV and Share Price

As at 31 March 2024

Net Assets	<b>£326.4m</b>
Shares Outstanding (net of treasury shares)	<b>225.2m</b>
NAV (per share)	<b>£1.45</b>
Share Price (per share)	<b>£1.15</b>
Discount	<b>(20.7)%</b>
Dividend Yield	<b>10.4%</b>
Market Capitalisation	<b>£262.6m</b>

### Total NAV Return<sup>1</sup>

Financial Year Ended 31 March 2024	<b>7.0%</b>
Prior Financial Year Ended 31 March 2023	<b>6.2%</b>
Last Three Financial Years Ended 31 March 2024	<b>21.8%</b>
Last Five Financial Years Ended 31 March 2024	<b>30.1%</b>

<sup>1</sup> 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").

**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.

Real Estate Credit Investments Limited ("RECI" or the "Company") is incorporated in Guernsey, governed by the Companies (Guernsey) Law, 2008 (as amended) (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 leveraged 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](http://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 Europe countries.



Hotel development in Spain

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.

**It is the intention of the Company to continue to pay a stable quarterly dividend with the potential for additional payments if investment returns permit**

## OVERVIEW

# Chairman's Statement



Bob Cowdell  
Chairman

RECI continues to deliver a robust NAV and attractive quarterly dividends of 3 pence per share.

I am pleased to report that for the year ended 31 March 2024, RECI delivered a total net profit of £21.9 million and maintained an unchanged dividend of 3 pence per quarter, despite challenging times for the listed investment company sector.

The last financial year saw the war in Ukraine continuing and the events of 7 October 2023 and Israel's response in Gaza, have seen heightened tensions in the Middle East. Elsewhere, geopolitical tensions and concerns remain, in a year of record numbers of government elections worldwide.

While the rate of inflation has been reducing from its peak, strong labour markets and energy prices have caused Central Banks to delay in cutting interest rates for longer than was expected. The Bank of Canada and the European Central Bank have recently announced rate reductions and consensus remains that interest rates will reduce over the rest of 2024 and 2025 bringing benefits to households and corporate borrowers. The return to long-term lower interest rates, albeit not to the lows of the last decade, will see income seekers move away from cash and government bonds as they seek higher returns on their investment. A reduction in interest rates should also benefit and allay investor concerns about the credit and real estate markets.

The economic and geopolitical challenges of the last year, combined with discount, liquidity and some governance issues, have seen investor sentiment negatively impacted across the whole listed investment company sector. Concerns over credit and UK equity markets and real estate and private equity valuations have driven significant investor selling, allied to the need to sell investment company shares to provide liquidity to satisfy significant levels of redemptions in investors' underlying funds. This combination has seen investment companies' share price discounts widen to near record levels.

Against this challenging backdrop, the Board and Cheyne have continued to focus on RECI's core strengths and seek to deliver for our Shareholders. The Company's shares traded at an average discount to NAV of 14.7% during the financial year ended 31 March 2024. Reflecting market sentiment, the Real Estate Debt Sector traded at an average discount of 26.3% (excluding RECI) over the same 12 months<sup>1</sup>.

During the last financial year, the Company received interest and repayments on its portfolio to fund its existing investment commitments. Since the year end, the Company has received two further repayments totalling £16.7 million. The Board continues its practice of considering all options when assessing the levels of excess cash to be retained or deployed by the Company from time to time and how any such cash available for deployment should be allocated. Excess cash is regarded as the cash available following recognition of the obligation to ensure sufficient cash resources to pay, inter alia, the Company's expenses, borrowings, dividends, and fund its ongoing contractual loan commitments, from time to time ("Available Cash").

Mindful of the Company's prevailing discount and Available Cash, the Board launched an initial buyback programme in August 2023 and a successor buyback programme in March 2024.

The Directors and Cheyne remain committed to providing detail and transparency regarding the Company's portfolio and investment strategy, allowing all investors to focus on RECI and its merits and opportunities, notwithstanding the challenging broader market environment.

I am pleased to report that RECI won the Best Performance Award as the top performer over three years in the Specialist Debt Category at Citywire's annual awards ceremony in November 2023.

Reflecting your Board's and our Investment Manager's confidence in RECI and its future, the Directors and employees of Cheyne have purchased an aggregate of 1.24 million shares in the Company since the start of the financial year on 1 April 2023.

## Financial Performance

RECI reported a total net profit for the financial year ended 31 March 2024 of £21.9 million on year-end total assets of £352.3 million, compared with a £20.6 million net profit in the year ended 31 March 2023, on year-end total assets of £419.0 million.

The NAV as at 31 March 2024 was £1.45 per share (£1.47 per share as at 31 March 2023) which, combined with the 12 pence per share of dividends payable in respect of the year ended 31 March 2024, represents an annualised total return for Shareholders of 7.0%.

During the financial year ended 31 March 2024, the Company's shares traded at an average discount to NAV of 14.7%, (6.1% discount for the year ended 31 March 2023).

Total quarterly dividends declared in respect of the financial year ended 31 March 2024 were an unchanged 12 pence per share, returning £27.4 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 6.8%, with average gross leverage of £73.9 million or 0.22x NAV. RECI also had asset level structured leverage, totalling £33.9 million at year end, at an average borrowing cost of 7.5%.

When the financial year began on 1 April 2023, RECI had gross balance sheet leverage of £80.4 million (0.24x NAV) and leverage net of cash of £64.0 million (0.19x NAV). As at 31 March 2024, the Company's gross balance sheet leverage was £23.8 million (0.07x NAV); its leverage net of cash was £1.0 million (0.00x NAV); and its net effective leverage, including contingent liabilities of £3.9 million (being the partial recourse commitment, representing 25% of asset level borrowings provided to certain asset level structured finance counterparties), was 0.02x NAV.

During the financial year to 31 March 2024, the Company funded £95.2 million into existing investments, compared with £158.6 million in the previous financial year. RECI received cash repayments and interest of £134.2 million in this year, compared with £159.0 million in the year ended 31 March 2023. The Company also received £9.3 million (net of repo financing) via the sale of market bonds in the year.

## Financial Year Review

Despite the challenging real estate and credit markets, the Company's robust portfolio ensured the NAV remained stable at an average of £1.47 per share during the financial year, notwithstanding the payment to Shareholders of four unchanged dividends, totalling 12 pence per share, during the period.

Cheyne maintained the strategy of focusing portfolio exposure upon lower risk senior loans, with 86% of the Company's positions comprised of senior assets by the financial year end. RECI's holding of market bonds had reduced to 2.2% of the portfolio by 31 March 2024. The weighted average life of the whole portfolio was 1.4 years for the financial year ended 31 March 2024; and the weighted average LTV of the Company's portfolio was 64.9% (59.2% at 31 March 2023), maintaining significant defensive equity headroom.

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, which saw a reduction in gross and net balance sheet leverage over the year to 31 March 2024.

The negative market sentiment during our last financial year inevitably impacted RECI's share price and saw material discount widening across the investment company sector generally and the credit and real estate sectors, in particular. The Company's shares traded at an average discount to NAV of 14.7% for the financial year ended 31 March 2024.

On 31 August 2023, the Company announced a share buyback programme (the "Initial Programme"), with a maximum aggregate purchase price of £5.0 million. Pursuant to that programme, a total of 4,095,000 shares were purchased for treasury for an aggregate amount of £5.0 million. Shares were repurchased under the Initial Programme at an average discount to net asset value per share of 16.6%, with the Company's shares trading at an average discount of 14.2% from 31 August 2023 to 25 March 2024 (the date of the last share repurchase under the Initial Programme).

On 28 March 2024, the Company announced that it intended to undertake a further buyback programme (the "Successor Programme") which will run to 30 September 2024. The maximum aggregate purchase price of all shares acquired under the Successor Programme will be £10.0 million and 1,812,643 shares have been repurchased to date.

The Company's shares closed at £1.22 on 18 June 2024 (a discount of 16.38%), which would provide a yield of 9.84% 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, appear to have been overlooked amid the broader volatile market and negative sector background. Your Board continues to believe that RECI provides investors with a highly attractive and sustainable long-term income stream.

RECI is well positioned to deliver this attractive dividend stream alongside a robust NAV and provide investors with a substantial and liquid company (with total assets of £352.3 million and market capitalisation of £262.6 million at 31 March 2024) with the potential for the shares to re-rate and the Company to grow over time.

## Chairman's Statement (continued)

### Board Update

Colleen McHugh was appointed on 15 September 2023 as Chair of the Board's Management Engagement Committee, succeeding Susie Farnon who remains Chair of the Company's Audit and Risk Committee.

In line with the Board's succession planning and following the appointment of an independent recruitment firm and a comprehensive search process, the Company announced on 8 May 2024 that Andreas Tautscher had been appointed as an independent non-executive director of the Company. He will also serve as a member of the Company's Audit and Risk, Nomination, Remuneration and Management Engagement Committees and will stand for election at the Annual General Meeting to be held in September 2024.

Andreas has over 30 years' experience in the banking and financial services industry, including as CEO of Deutsche Bank International, and I am looking forward to the Company benefiting from the experience and complementary skills he will bring.

Having joined RECI and become Chair in 2015, in accordance with good governance practice I had agreed with the Board that it would not be appropriate for me to stand for re-election at the September 2024 AGM and that I should retire from the Board at the conclusion of that meeting. Accordingly, led by our senior independent director ("SID"), the Board carried out a process to recruit a successor Chair candidate earlier this year and a candidate was identified to join the Board and succeed me after a suitable handover period. Unfortunately, the candidate has now withdrawn due to a perceived conflict of interest that had arisen.

As announced on 12 June 2024, John Hallam, the SID and Chair of the Remuneration Committee, has advised the Board that reluctantly he wishes to retire from the Board at the September AGM for personal reasons. As a consequence of John stepping down, the Board has requested that I stand for re-election and continue as Chair beyond the September 2024 AGM for the requisite period needed to complete the process to identify a successor as Chair and achieve a smooth and successful handover. As announced, Susie Farnon was appointed as the new SID with immediate effect and will lead the process of recruiting my successor. I would like to record the Board's appreciation of John's highly valued contribution to RECI as a non-executive director, SID and committee chair during the course of his tenure.

### 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 26 of the Stakeholder Engagement section and pages 28 to 33 of the Sustainability Report provide further information about the Company's and the Investment Manager's approach to ESG matters.

### Outlook

The UK general election will be held on Thursday 4 July, with a change of government widely anticipated. 2024 will also see the greatest ever number of elections around the globe, with eyes focused on the outcome of November's US elections as potentially being the most destabilising. A resolution to the conflicts in Ukraine and the Middle East appears as challenging as ever.

The reduction of inflation should allow Central Banks to move to reduce interest rates over time, albeit perhaps slower than anticipated. A return to a lower long-term interest rate environment, even if not returning to the recently experienced low levels, should benefit RECI as it continues to provide investors with a highly attractive and sustainable yield.

In considering all options when deciding on the appropriate allocation of the Company's Available Cash resources, the Board is mindful of when opportunities present themselves to achieve attractive repeatable returns from new investments and thereby enhance the "investment case" for RECI. Encouragingly, Cheyne and its new deal pipeline ensure that RECI will continue to benefit from the opportunities to lend at attractive returns of over 10% to enhance portfolio returns and dividend cover. Scheduled portfolio repayments over the rest of the year will boost Available Cash to be deployed into new higher yielding opportunities alongside funding the current and potential future buyback programmes.

Notwithstanding the challenging market and sector background, 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  
19 June 2024

# KPIs and Financial Highlights<sup>1</sup>

## Key Performance Indicators

	31 Mar 2024	31 Mar 2023
<b>Balance Sheet</b>		
NAV per share	£1.45	£1.47
Share price	£1.15	£1.34
Discount	(20.7)%	(8.8)%
Average discount in year <sup>1</sup>	(14.7)%	(6.1)%
Leverage (% of NAV) <sup>2</sup>	7.3%	23.8%

<sup>1</sup> Average discount in year is the average of the difference between the share price and the NAV per share divided by NAV per share.

<sup>2</sup> Leverage is the recourse financing divided by the net assets.

	31 Mar 2024	31 Mar 2023
<b>Profit, Loss and Dividends</b>		
Earnings per share	9.6p	9.0p
Dividends per share declared for the year	12.0p	12.0p
Total NAV Return (including dividends) annualised <sup>1</sup>	7.0%	6.2%

<sup>1</sup> Assumes re-investment of dividends.

## Financial Highlights

	31 Mar 2024 £m	31 Mar 2023 £m
<b>Balance Sheet</b>		
Cash, cash equivalents and cash held by brokers	22.8	16.5
Net assets	326.4	337.0

	31 Mar 2024 £m	31 Mar 2023 £m
<b>Profit and Loss</b>		
Operating income	31.4	30.7
Net profit	21.9	20.6

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: [realestatecreditinvestments.com](https://realestatecreditinvestments.com).

<sup>1</sup> Alternative Performance Measures are described in Glossary on page 102.

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# Business and Strategy Review

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## 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

Deal Repayments and Interest in Year

**£134.2m**

(as at 31 March 2024)

Dividends Paid

**£27.4m**

(as at 31 March 2024)

Investment Portfolio

**£329.4m**

(as at 31 March 2024)



Health spa in the United Kingdom

## Performance Highlights

### Progress in Year Ended 31 March 2024



- RECI's investment portfolio is a diversified book of 31 positions in real estate loans and bonds.
- Over the course of the last financial year RECI funded £95.2 million into existing deals during the year with no new commitment to deals.



- Paid out dividends of 3 pence per share each quarter, 12 pence over the year.
- A total of £27.4 million in dividends returned to our Shareholders.



- Investment book has reduced to £360.0 million (gross of leverage) as at 31 March 2024 which is spread across 31 positions with a weighted average levered gross yield of 10.2% and an average loan-to-value of 64.9%.
- RECI also received cash repayments and interest of £134.2 million in this year.



- RECI continues to migrate towards an all-senior loan book.
- 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, Bermuda, Dublin, Dubai, New York, Zurich, Monaco, Munich, Sydney and Paris.

## Current and Future Development

A review of the year and outlook is contained in the Investment Manager's Report and also in 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 optimising the Company's performance by directing and supervising the affairs of the business and meeting the appropriate interests of Shareholders and relevant stakeholders, while enhancing the value of the Company and also ensuring the protection of investors. A summary of the Board's responsibilities is as follows:

- statutory obligations and public disclosure;
- strategic matters and financial reporting;

- risk assessment and management including reporting, compliance, governance, monitoring and control; and
- other matters having a material effect on the Company.

The Board is responsible to 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, 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, making 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 continuation vote is due within the three-year period;
- (iii) The average life of the portfolio is within the three-year period.

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 Assets Under Management ("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 macroeconomic risks: including sustained higher interest rates, heightened inflation, supply chain disruption, the continuing impact of conflicts and a number of global elections happening around the world; 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. There are no additional emerging risks that have been identified.

### 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 in promoting the Company with the long-term aim of its share price trading at or around NAV and considers all options to achieve this. This includes consideration, as part of the ongoing cash allocation policy, of implementing share buybacks to enhance NAV per share and potentially reduce any discount to NAV. This may be done when cash resources permit and in the context of prevailing market conditions and the one-time potential NAV uplift of a buyback compared with the potential repeatable long-term benefit of investments in attractive high yielding opportunities to enhance RECI's returns.

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

## Strategic Report (continued)

from Shareholders at the AGM in September 2024 and at each subsequent AGM, or earlier at an Extraordinary General Meeting if the Directors consider it appropriate. During the year ended 31 March 2024, the Company has purchased 4.1 million shares into treasury.

### 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 or late 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 52 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 2024 is 2.4 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 and the performance of the security, which is provided by the Servicer to the Company 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 currency risk, interest rate risk and other 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.

### 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.

### 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 CMBS.

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 2024 is 2.4 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.

### 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 CMBS 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. The performance of service providers is a relevant risk, as the Company is dependent on the performance of the service providers. The Board and Cheyne regularly measure and evaluate the performance of the providers. These currently include: geopolitical and macro economic risks sustained higher interest rates and stubborn inflation pressure, supply chain disruption, the continuing impact of conflicts around the world; 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

Delivering the Company's key objectives through a challenging period.

Ravi Stickney  
Portfolio Manager

Managing Partner and CIO,  
Cheyne Real Estate



## Macroeconomic backdrop and implications for real assets

In our prior year annual manager's report, we expanded on the thesis of inflation and rates remaining higher for longer and its implications for real asset valuations.

Rolling forward a year, and that thesis is now entrenched into the wider market thinking as well. Those that argued for inflation to retrench, along with rates, are increasingly coming to consensus that long-term structural inflation is greater than 2% and that terminal interest rates will remain significant higher for longer.

The implications for real estate, globally, has seen the marked decline in valuations this year. Assets that demonstrate a long-term productive and sustainable need (such as mid-market dwellings), have seen relative modest declines. Assets that are structurally obsolete (such as old office buildings in need of substantial refurbishment) have seen declines or more than half their values.

Whilst many European banks are, broadly, shielded from these valuation declines (by virtue of conservative senior lending since 2008), we saw, at the beginning of 2024, the material impact of highly levered regional banks on the wider real estate sectors in the North American, German and Scandinavian markets.

Looking forward, there is much focus on a potential soft landing for the US economy and a Eurozone recession. That augurs for a dual track rates regime, with persistent higher rates in the US in contrast to depreciating rates in the Eurozone. The latter is likely mildly supportive of European real estate valuations. There is also the great unknowns of global political uncertainty and the policy changes those may bring at the back end of 2024. All of these present the case for continued volatility in global real asset markets and wider capital markets.

None of this is new to RECI's manager, Cheyne Real Estate. Indeed, since 2016 (Brexit) and 2020 (Pandemic), we have been mindful to seek out the lowest possible risk profile for RECI's investment book. This has presented itself in the senior lending space, which has brought RECI its relative stability in a turbulent world.

## Debt markets in Europe

Against the volatile backdrop, the case for productive and sustainable real assets is significant. For example, our key cities remain blighted by a lack of affordable housing and Western economies are also playing catch up on the creation of much needed technologically driven production facilities. In the leisure sector, years of underinvestment have meant limited choice of quality accommodation in city centres and for leisure. Even in the office sector, the availability of prime grade A offices in central London, for example, remains extremely low.

Real estate buyers, developers, and owners that we work with are increasingly active in seeking funding (debt and equity) for the following efforts:

1. Towards the refinancing of their current high quality productive cash flowing assets
2. In the development of new productive assets
3. To the repurposing of obsolete assets (for example in transforming an old polluting office to a best-in-class super prime offering)

In addition, the need for debt capital is not being met by supply, for the reasons we have articulated previously:

- The continued retrenchment of banks from commercial real estate lending due to regulatory capital pressures
- The very high barriers to entry in European real estate lending, proving difficult for nascent local lenders to grow, and for foreign lenders to gain a meaningful foothold in Europe
- The severe weakening of German and Scandinavian lending banks in light of the ongoing regional banking concerns in both markets.

As such, the market remains compelling for established lenders to provide much needed assistance via senior debt capital towards the above needs.

## Asset Performance

The past year has seen an acceleration of the themes we highlighted in last year's commentary, namely the resilience of sustainable productive assets and the weakness in anything other than this.

The main living asset class, mid-market housing for rent and for purchase, continues to perform well across the key cities in Europe. The need for housing is great and the supply is severely constrained. Rental growth continues to accelerate in key cities and a lack of governmental support in funding the sector (and in tight planning regulations) has exacerbated the issue. Our top pick for senior funding remains in supporting the growth of mid-market housing in the key cities of the UK and Europe.

Other living assets such as Purpose-Built Student Accommodation ("PBSA") continues to see growth from a lack of supply and a resurgence of demand in our key education hubs. Later living, senior living and healthcare housing continue to need funding to grow to service our communities.

The industrial sector has seen significant demand from the need for high value production being brought closer to shore and a transition away from polluting industries. In tandem, the need for logistics assets, though declining as supply has responded to demand, remains stable.

City centre and leisure destination hotels have seen a significant growth in demand through the last two years. This has not been met by supply of new premises due to underinvestment and a lack of funding since the pandemic. Hotels in particular remain a challenged asset class for bank lending to partake in.

Finally, the office sector has seen a strong growth in demand for core city centre locations and super prime "grade A" offices offering the very best in accommodation standards and environmental credentials. Whilst city centre demand is driving strong rental growth in the core central locations (for example in the core City and West End locations in London), the secondary locations have yet to experience the spill over in demand.

## RECI – Review of the prior year

RECI has faced a challenging year reflecting both the market and sector background. Nevertheless, Cheyne's focus has remained on delivering upon the main objectives of the Company:

- NAV preservation
- Portfolio Income stability
- Attractive dividend payouts
- Growth over time

The persistent pressure on the share price has seen the Company enact two share buyback programmes, with the deployment of available cash to fund such buybacks impacting the ability of the Company to invest into new loans.

## Current Loan Book NAV

### RECI's senior loan focus mitigates valuation declines and market stress

RECI's move towards a focus on senior loans (accelerated post the 2020 pandemic period), has significantly helped it in navigating the material downturn in property valuations that played out in 2022 and 2023. Senior loans give RECI the absolute security, governance, control and covenants necessary to work with sponsors to navigate their challenged valuations.

Whilst valuations have decreased across the book, RECI is free to address the issues bilaterally with the sponsors, with no governance dilution given away to other lenders. A mezzanine heavy strategy would not have afforded this capability. Indeed, we see significant losses in mezzanine lenders unable to forestall enforcement by senior lenders as valuations decline.

## Investment Manager's Report (continued)

Over the past two years, RECI has been able to assist capable sponsors in navigating value declines, by giving them the assistance and time to improve the income from their assets and move to a refinancing or sale of their assets. In exchange for this assistance, RECI has managed to seek a meaningful "derisking" of its position via incremental amortisations or principal paydowns. Effecting this strategy is only possible due to RECI's unfettered governance in senior loans.

The above assistance to sponsors is a "win-win" solution for RECI and its sponsors; enabling the sponsor to earn a good recovery on equity in a very challenged time, whilst addressing the risk position of RECI. The proof of the success in this strategy has been the large number of repayments RECI has seen over the past year, despite the very challenging conditions. RECI saw the repayment of nine loans which realised gross proceeds of £111.3 million and realised IRR of 9.2%. This included the repayment, in full, of senior loans collateralised by a London office asset and also a logistics asset which saw its "red book" formal valuation decline by 40%. All of the nine loan repayments were for the full principal balance and all accrued coupons plus fees.

### Portfolio Profile

Reflecting market conditions, while RECI continued to fund its existing commitments, it made just two new loan investments in the last two financial years. As such, its loan portfolio is predominantly a legacy book accumulated prior to mid-2022. Despite the significant valuation shifts in the last two years, RECI's loan book has avoided significant stress and volatility. As above, this is predominantly related to the senior loan dominance of this book. The book, currently, has 25 remaining loans, with a gross value of £352.1 million. The current WA LTV of the book is 64.9% (based on latest valuations) compared to 60.5% at origination. The main reason for the muted rise in the WA LTV are (a) the continued repayments being achieved and (b) the de-risking provided by, most, sponsors.

### Challenged Sectors – Offices & Retail

The RECI loan book is resilient across 22 out of 25 of its deals. The office sector in Europe and the US remains challenged post pandemic in the migration to increased home working. The demand for offices, today, resides in the best ESG credentialled prime Grade A offices. The supply is heavy in substandard, inefficient offices. The dynamics of the sector has led to a slow take up of office space (albeit at stable rents for Grade A stock) across Europe. Office senior loans make up 13% of RECI's NAV. Both are senior loans with collateral located in Paris and have sponsors who have successfully delivered prime "Grade A", ESG excellent offices in Paris. Both assets are, however, in secondary locations

outside the core central business district. Of the two, one asset is located in the weaker eastern district (3% of NAV), whilst the other (larger) asset is in the stronger north west district (9% of NAV).

The sponsor in the former asset has defaulted on its loan and RECI has reduced the fair value of the loan to reflect the ultimate recovery value that has been assessed by its valuers. The loan is carried today at 72% of its par balance. RECI benefits from the continued efforts of Cheyne Real Estate's large French team in working towards a recovery on this asset. Whilst the recovery will take time, we do expect a recovery above the current carrying value.

The sponsor in the latter asset has agreed to make a material repayment of the loan balance and is also a capable asset manager who recognises the potential for a long-term lease of this asset. RECI will provide this sponsor with the assistance needed for the sponsors recovery, in consideration for the de-risking agreed.

RECI's exposure to retail rests in a single mixed-use asset, which is currently carried at a valuation that is 25% of its par balance and represents 0.8% of the Company's NAV.

### Further Repayments

Other than the challenged assets above, we continue to expect timely repayments on RECI's loan book. Since the financial year end, the Company has already received two further repayments totalling £16.7 million.

### Income & Dividend – stability and growth

It has been challenging to navigate the need for income stability and growth. A sustained constraint on the ability to invest in new deals to replenish the portfolio brings the challenge of dealing with a lower base of income, less operational efficiency and less flexibility. Whilst income decline in the last financial year was not meaningful, further retrenchment from the loan book would see that income at risk.

To mitigate (and reverse) this risk, we do see the need for RECI to balance its need for share buybacks with the need for investment in new loans, which offer a very high level of current running cash income. The wider Cheyne Real Estate platform sees, as its most compelling investment thesis today, the origination of substantial senior loans secured by core income producing assets for running yield of around 10%. With funding from RECI's banking partners, that running return should be greater than 15% on such core deals. It is this deal profile that, we believe, RECI should allocate some of its cash resources to (especially as repayments remain regular).

## Growth

RECI's manager, Cheyne Real Estate, and its investors, see a substantial attractive opportunity set in the provision of senior loans in Europe for the reasons we have expanded on above. As of 31 March 2024, Cheyne's firmwide AUM stood at USD 11.2 billion, of which Cheyne Real Estate represented USD 5.4 billion. The Real Estate team is currently launching the next flagship credit funds within the Cheyne Real Estate Credit Holdings ("CRECH") Programme: CRECH Senior Loan Fund (target raise £5.0 billion) and CRECH Capital Solutions Fund (target raise £2.0 billion, anchored and seeded by an existing Sovereign Wealth Fund investor). It is our fervent hope that RECI can, in time, grow its capital base to partake in these accretive loans for the benefit of its investors.

## Leverage

RECI's current gross leverage stands at £23.8 million, representing a 0.07x debt to equity ratio, set against a maximum of a 1.40x ratio. RECI's low level of leverage is a function of the repayments it has seen through the year, coupled with no new investments absorbing the cash proceeds.

## Looking to the coming year

RECI cannot ignore the market backdrop nor the deep discounts and other issues across the investment company sector which, looking to the coming year, will continue to put pressure on RECI's share price. We do note the emergence of new buyers at these discounted share prices. However, we are also acutely aware of the constant pressure on some of RECI's shareholders to seek liquidity for their underlying funds. To this end, we are supportive of the Board in its decision to enact two share buyback schemes to date.

Despite the constraints on cash flow and growth, we will continue to manage RECI to its key objectives and for the preservation of the valuable income to its shareholders.

This will be done with:

- A continued focus on asset management of its current loan book. RECI benefits from the 60 strong team of investment and asset management professionals dedicated to real estate debt at Cheyne Real Estate, located in offices across London, Berlin, Madrid, Bermuda, Dublin, Dubai, New York, Zurich, Monaco, Munich, Sydney and Paris
- A proportionate allocation of cash (from loan repayments) towards new, highly cash flow generating, senior loans

The Cheyne Real Estate business continues to grow and to support RECI. We remain dedicated to the success and, eventual, growth of the Company.

## 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. 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 also 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](https://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

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#### 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.

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#### How the Board engages

The Board's ESG Lead, Colleen McHugh works closely with Cheyne in developing and implementing RECI's ESG approach. Pages 28 to 33 of the Sustainability Report provide further information about the Company's and the Investment Manager's approach to ESG matters.

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#### Key activities during the year

The Investment Manager engages on an ongoing basis with an external Real Estate ESG specialist consultant to assist with developing its framework 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 must achieve a score of 3 or higher on at least one of the Target Characteristics.

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 has significantly helped 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 also helped collate and measure the data required to track progress in what is a fast moving but increasingly important area of focus. The Investment Manager has now fully embedded the ESG framework within its investment process, which includes regular 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.

To further reduce its carbon footprint, Shareholder communications will be electronic only to all Shareholders on the share register. Accordingly, the Company's website is now the default method of communication for Shareholder publications. Currently approximately 81% of the Company's Shareholder register receive documents and other communications electronically.



## Service Providers

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### Why they are important

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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 are 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.

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### How the Board engages

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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.

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### Key activities during the year

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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 Market Services (Guernsey) Limited (Registrar), and Aztec Financial Services (Guernsey) Limited (Company Secretary) can be found on page 101. Other service providers include our corporate broker, lenders, auditors, counsel and other advisors.

## 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").

Several standards and codes have received prominence as metrics for investment managers. These include, for example, the UN Principles for Responsible Investment, 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 TCFD was disbanded on 15 December 2023, with the International Financial Reporting Standards ("IFRS") now responsible for monitoring the climate related disclosures. The UK government has started the process of how to endorse the IFRS Sustainability Disclosure Standards for use in the

UK. This reporting framework will be known as the UK Sustainability Reporting Standards and is not expected to be effective until January 2026 at the earliest.

The Investment Manager's Stewardship Committee provides firmwide oversight over its processes, seeking to ensure compliance with existing Responsible Investment and ESG policies and procedures, and creates a direct communication channel for all ideas and concerns around ESG. In addition, the ESG Implementation Forum acts as a conduit for the streamlining of various initiatives across investment lines and ensures that it continuously improves its ESG standards.

## 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 Real Estate Core ESG Principles

### VALUE ENHANCING

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.

### RISK REDUCING

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

- Cheyne 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.

### ACTIVELY ENGAGED



## 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.



## 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.



## On-going 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.

## Sustainability Report (continued)

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

- The Greater Good
- Value Enhancement/Risk Management
- Regulation
- 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")

### Outlook and Focus Areas 2024 and Beyond

The Company knows that its Shareholders, including the Directors of the Company, see attention to ESG factors as critical in its assessment of Cheyne as the 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 in completing and implementing its ESG framework which now forms the basis of an evaluation tool

to influence investment decisions from an ESG perspective for new projects.

The next phase of its ESG evolution will involve the engagement of a leading ESG asset level consultant to capture more defined asset level metrics in terms of carbon emissions, the goal being to develop a net zero carbon strategy and action plan. This commitment reflects the Investment Manager's dedication to environmental stewardship, sustainability, and the wellbeing of the communities it serves. As part of its involvement with this project, the Investment Manager will assess potential new frameworks (e.g. CRREM) to secure its assets and reduce the risk of stranding.

The Investment 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 are being fully incorporated into the investment process and allow the Investment Manager to influence borrowers and to improve the ESG standards of projects which they fund.

Looking ahead, one of the main focuses will be on new regulatory requirements. This year the Investment Manager will advance its reporting and produce its inaugural FCA TCFD entity report. Cheyne will also be producing a publicly available FCA TCFD product level report for RECI, due to its role as Investment Manager.

In addition, the UK's regulatory framework SDR comes into force in stages from later this year. As a non-UK domiciled company, the existing scope of the SDR has very little impact on RECI, with no additional reporting or product labelling requirements imposed. Nonetheless, RECI will continue to monitor the regulatory landscape as well as consider best practices as pertains to SDRs and other such frameworks. Effective 31 May 2024, the Investment Manager will be in scope of the FCA's Anti-Greenwashing Rule and 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: [cheynecapital.com/esg-responsible-investment/](https://cheynecapital.com/esg-responsible-investment/)



# Responsible Investment Highlights 2024

## Investment example 1

### Taxi House – Co-Living Scheme (United Kingdom)



#### ENVIRONMENTAL

- The co-living development will be a car-free development, and residents will be encouraged to use sustainable modes of transport and the scheme will have dedicated cycle parking
- The Sponsor is dedicated to deliver as BREEAM Outstanding utilising a range of green and sustainable technologies and measures
- The Sponsor will also ensure 100% of electricity and gas supplies are from renewable energy sources
- The Sponsor will strive to achieve a recycling rate of 90% and zero waste to landfill

#### SOCIAL

- The Sponsor will aim to provide rental levels for studio apartments which are 10% lower than the comparable rents in the area
- The scheme will be devoted to tackling the issue of loneliness and isolation through communal spaces and on-site events
- The co-living concept provides high-quality community-focused accommodation. Ample amenity spaces are dedicated for the residents to socialise and form a community
- The scheme will provide local employment opportunities through apprenticeships and training at the site

#### GOVERNANCE

- Cheyne has a firm grasp over the governance of the structure and continues to oversee management initiatives
- Cheyne will retain control rights through its JV participation and will therefore ensure the Sponsorship upholds the highest quality of due diligence and governance in its investments

## Investment example 2

### Fulton Road – Residential Development (United Kingdom)



#### ENVIRONMENTAL

- Air source heat pump technology will provide heating and hot water
- 50% carbon reduction, 41 photovoltaic panels, 2,037 square metres of new public planting, 51 new trees and 2,500 square metres of biodiverse green roofs
- Biodiversity net gain and BREEAM Excellent rating

#### SOCIAL

- The project has helped create up to 925 construction jobs and 205 permanent jobs
- Regal will establish on site training and construction academies at its developments to support and give back to local communities in an exclusive relationship with Building Heroes
- Two new pedestrian raised table crossings and a new bus shelter
- New cycle connections and four new public spaces including 3,192 square metres of new play spaces

#### GOVERNANCE

- Regal are a strongly governed business with environmental, anti-slavery and human trafficking, modern slavery and health and safety policies in place and followed
- They are in the process of creating their Diversity and Inclusion policy

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# Governance

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## GOVERNANCE

# 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 the Senior Independent Director of Thomas Miller Holdings Limited, the former chairman of Castel Underwriting Agencies 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. He is a Freeman of the City of London and 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 and Senior Independent Director from 12 June 2024  
(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 until 12 June 2024  
(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 investment manager. Prior to this she was managing director of 1818 Venture Capital, a licensed asset manager based in Guernsey. She is currently a non-executive director of Ruffer Investment Company Limited.

Colleen has over 25 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.

## Andreas Tautscher

Independent Director  
(Guernsey Resident)

Mr Tautscher is an experienced Financial Services former executive who now focuses on acting as an Independent Director on Listed and Private Funds as well as other regulated businesses. He is currently a Director and Chairman of Audit Committee for two AIM Listed Boards, a LSE listed Aircraft Leasing platform as well as a local Bank and Asset Manager.

From 1994 until 2018 Andreas was a senior executive at Deutsche Bank and was most recently CEO Channel Islands and Head of Financial Intermediaries for EMEA and LATAM. He also sat on the UK Regional Governance Board of Deutsche and the EMEA Wealth Management Exco. He has also served on Local Government advisory committees and was for 6 years a non-executive director on the Virgin Group Board. Andreas' first career was in the oil industry as a geologist before moving to PricewaterhouseCoopers where he qualified as a Chartered Accountant in 1994. He has been a member of the Board since May 2024.

## GOVERNANCE

# 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.



**Andrew Sergeant**  
Head of Operations,  
Real Estate

Andrew has 16 years' experience with Cheyne, having joined in 2007. He is responsible for the daily operations of the Real Estate business including cash management, securitisations, loan drawdowns, hedging, tax compliance and corporate governance. Andrew is an approved director in Jersey under the JFSC and holds several UK directorships. Prior to Cheyne, Andrew held trading support positions at Deutsche Bank, JP Morgan, and Citibank. Andrew earned a First Class BA from the University of Leicester in 2003 and holds the CFA Certificate in Investment Management (IMC).



**Kirran Sky**  
Deputy Portfolio Manager,  
Real Estate

Kirran joined Cheyne in 2022 from a subsidiary of Oaktree Capital where he worked with the flagship Opportunities Funds since 2016 in Portfolio Management, Origination/UW, and modelling/systems development. Prior to this he worked for Apollo Global Management's European Principal Finance funds in Portfolio Management, and Nationwide Building Society's Management Development Programme in Non-Performing Loans, and Commercial Credit Risk. Kirran has a BSc in Mathematics from Loughborough University.



## 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-authorized 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 report and the audited financial statements for the year ended 31 March 2024.

## General Information

The Company was incorporated in Guernsey on 6 September 2005 with registered number CMP43634.

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 67 and 68. Dividends per share remained at 3 pence per share, with dividends totalling £27.4 million (31 March 2023: £27.5 million).

A fourth interim dividend for the year ended 31 March 2024 of 3 pence per share (31 March 2023: 3 pence per share) was declared by the Directors on 19 June 2024 and is payable on 26 July 2024. This fourth interim dividend has not been included as a liability in these financial statements.

The Company purchased 4.1 million (31 March 2023: Nil) shares in the market during the year. The total amount paid to purchase the shares was £5.0 million (31 March 2023: £Nil) and this was presented as a reduction from total equity.

## 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  
Andreas Tautscher (appointed 7 May 2024)

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

Director	Company Name
<b>Susie Farnon</b>	Apax Global Alpha Limited
	Ruffer Investment Company Limited
<b>Colleen McHugh</b>	Ruffer Investment Company Limited
<b>John Hallam</b>	NB Distressed Debt Investment Fund Ltd
<b>Andreas Tautscher</b>	Doric Nimrod Air Three Limited
	Doris Nimrod Air Two Limited

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.

Beyond June 2024, Mr Cowdell will have served on the Board in excess of nine years, but his skillset, experience and contribution, which clearly demonstrate his independence, should be and remain of considerable value to the Board and the Company.

Mrs Farnon and Mrs McHugh are both on the board of Ruffer Investment Company Limited but the Company believes that this does not impact their ability to be considered independent.

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 (as amended). 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	% of Company
Bob Cowdell (Chairman)	260,000	0.12
Susie Farnon	45,250	0.02
John Hallam	150,000	0.07
Colleen McHugh	62,000	0.03

## Substantial Interests in Share Capital

Chapter 5 of the Disclosure and Transparency Rules, requires disclosure of major Shareholder acquisitions or disposals (over 5% of the shares) in the Company (see list below of major Shareholders). During the year, there were three notifications of such transactions (31 March 2023: one notification). Since 1 April 2024, there were four notifications.

### List of major Shareholders as at 31 March 2024:

Name	Total Shares Held	% Shares Held
Close Brothers Group	21,059,141	9.35
Bank Leumi Le Israel	18,054,468	8.02
Hargreaves Lansdown Asset Mgt	14,453,888	6.42
Canaccord Genuity Group Inc	13,315,151	5.91
Tilney Smith & Williamson	13,288,277	5.90
Fidelity Worldwide Investment (FIL)	11,871,829	5.27

## Issued Share Capital

The issued share capital of the Company was 229.3 million shares, consisted of 225.2 million outstanding shares and 4.1 million treasury shares (31 March 2023: 229.3 million issued and outstanding shares).

## Directors and Officers Liability Insurance

Directors and Officers liability insurance is in place and was renewed on 6 July 2023.

## 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.

## Auditor

Deloitte LLP has been the Company's external auditor since the Company's incorporation on 6 September 2005 and as a requirement under Financial Reporting Council ("FRC") Public Interest Entities ("PIE") rules, the Company's lead audit partner is required to rotate off after five years of service. There will be a tender process in the second half of this year to appoint new auditors for the financial year ending 31 March 2026. 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 detailed in the Strategic Report.

## Directors' Report (continued)

### 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 macroeconomic 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 2024 of £18.3 million, together with the cash held at the broker of £4.5 million, the liquidity of the market bond portfolio and the financing available through activities such as repurchase agreements and off-balance sheet financing 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 2024 was 1.5%. 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 18 September 2024 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 19 June 2024.

**Bob Cowdell**  
Director

**Susie Farnon**  
Director



## 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 other 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 2023, Guernsey RPIX increased by 5.5% and therefore has recommended that the Chairman's fee be increased from £86,800 to £91,000 (an increase of 4.84%) and the base fee for other Directors move from £41,750 to £44,000 (an increase of 5.39%) 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 2025 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 assumes that the named individuals will discharge the roles indicated throughout the coming year.

	Year ended 31 March 2025 GBP	Year ended 31 March 2024 GBP	Year ended 31 March 2023 GBP
<b>Bob Cowdell</b> (Chairman and Nomination Committee Chair)	91,000	86,800	80,000
<b>Susie Farnon</b> (Audit and Risk Committee Chair and Senior Independent Director) <sup>1,2</sup>	56,500	56,250	53,000
<b>John Hallam</b> (Remuneration Committee Chair)	46,500	44,250	41,000
<b>Colleen McHugh</b> (Management Executive Committee Chair and ESG Lead) <sup>2</sup>	49,000	44,250	41,000
<b>Andreas Tautscher</b> (Independent Director) <sup>3</sup>	44,000	–	–

1 Susie Farnon was appointed to succeed John Hallam as Senior Independent Director with effect from 12 June 2024.

2 Colleen McHugh took over from Susie Farnon as Management Engagement Committee chair in the year ended 31 March 2024.

3 Andreas Tautscher was appointed with effect from 07 May 2024.

Furthermore, the Committee noted that, in the past, 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 2025, additional fees of the same amount should be paid.

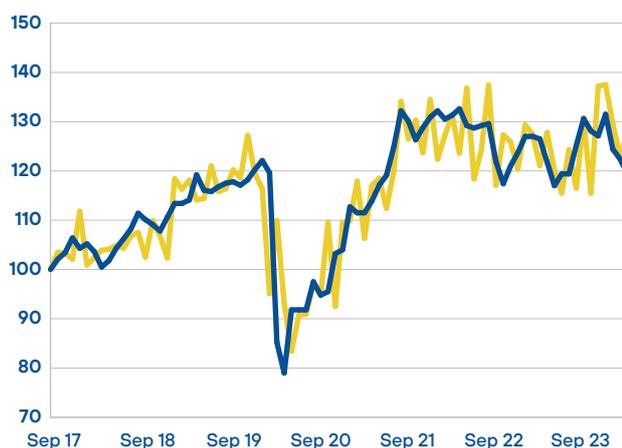
## Statement of Shareholder Voting

At the last AGM held on 15 September 2023, a resolution to approve the Remuneration Committee Report and Remuneration Policy was passed with 96,942,807 votes (99.02%) being cast in favour and 960,807 votes (0.98%) against reflecting the same very high level of approval as the previous AGM.

## Relevant Performance Information

The graph below shows the Total Shareholder Return ("TSR") (share price and dividends) from the redemption of the preference shares in 16 September 2017 until 31 March 2024 compared with an investment in the FTSE 250 over the same period. The TSR has averaged 2.74% per annum during that period as compared to 3.05% for the index.

Total Shareholder Return  
% (share price and dividends) — FTSE 250 — RECI



To assist shareholders in assessing the relative importance of Directors' remuneration, the table below compares the cost per share of the remuneration with both the earnings per share and the dividend per share paid to shareholders.

Year	Remuneration per share	Earnings per share	Dividend per share
2023/24	0.103p	9.6p	12.0p
2022/23	0.094p	9.0p	12.0p
2021/22	0.093p	10.7p	12.0p
2020/21	0.085p	16.2p	12.0p

## 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 19 June 2024

## GOVERNANCE

# Corporate Governance Statement

## Statement of Compliance with Corporate Governance

The Company is a member of the AIC and by complying with the February 2019 edition of the AIC Code is deemed to comply with both the UK and the GFSC Code where relevant.

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, provisions and recommendations of the AIC Code 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 44 and 45.

## 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 the Investment Manager due diligence visits, when the Board attends the offices of the Investment Manager and meets with senior executives. Further, the Board requires that it is supplied in a timely manner with information by the Investment Manager, the Company Secretary and other advisers in a form and of a quality appropriate to enable it to discharge its duties.

## Duties and Responsibilities

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

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

The Board is responsible to Shareholders for the overall management of the Company. The Board has delegated the day-to-day operation of the Company to the Investment Manager, Administrator and the Company Secretary. The Board reserves the powers of decisions relating to the determination of 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.

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

<sup>1</sup> Post RECI's financial year end, Andreas Tautscher was appointed as a new independent non-executive director of the Company. He was appointed with effect from 07 May 2024.

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, six ad-hoc meetings and a further two 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 was Senior Independent Director ("SID") during the year and stepped down from the role on 12 June 2024 and Mrs Farnon was appointed in his place. The 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, Mrs McHugh and Mr Tautscher. 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 2024, the Audit and Risk Committee met at four informal meetings. The Audit and Risk Committee Report on pages 52 to 55 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, Mrs McHugh and Mr Tautscher. 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.

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

## Corporate Governance Statement (continued)

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 McHugh, with its other members being Mr Hallam, Mr Cowdell, Mrs Farnon and Mr Tautscher. 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.

### Remuneration Committee

The Remuneration Committee is chaired by Mr Hallam, with its other members being Mr Cowdell, Mrs Farnon, Mrs McHugh and Mr Tautscher. 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. Andreas Tautscher, who was appointed to the Board on 7 May 2024, will stand for election at the September 2024 AGM. The Board has adopted a policy whereby all Directors will be proposed for re-election each year and so, save for John Hallam who has notified the Board of his intention not to stand and retire from the Board, all other Directors will be proposed for re-election at the forthcoming AGM. Details of Directors' tenure are disclosed on pages 36 and 37.

### 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 the 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 26 of the Stakeholder Engagement section and in the Sustainability Report on pages 28 to 33.

## 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's Modern Slavery and Human Trafficking Statement is available on the Company's website and is reviewed by the Board on an annual basis.

## 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

## Corporate Governance Statement (continued)

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.

	Number of Board members	% of Board members	Number of senior positions on the Board (CEO, CFO, SID, Chair)
Male	3	60.0	
Female	2	40.0	Not applicable – see note <sup>1</sup>
Minority ethnic background	–	–	

<sup>1</sup> This column is inapplicable as the Company is externally managed and does not have executive management functions, specifically it does not have a CEO or CFO. The chair of the Board and the SID are both men. However, the Company considers that chairing the permanent sub-committees of the Board are senior roles in an investment company context. The positions of chair of the Audit and Risk Committee and Management Engagement Committee are held by women.

The Board acknowledges the importance of diversity for the effective functioning of the Board which helps create an environment for successful and effective decision making. The Board currently comprises of 40% women with Susie Farnon acting as the SID and the Chair of the Audit and Risk Committee and Colleen McHugh chairing the Management Engagement Committee; but will revert to equal representation of men and women upon John Hallam's retirement in September 2024. The Company does not currently comply with the ethnic diversity target set out in the Listing Rules. However, the Board continues to keep this under review in the context of planned Board succession opportunities. In view of the nature, scale and complexity of the Company, the Board believes a formal diversity policy for the Company is not necessary at this time. Diversity of the Board is further considered on at least an annual basis through the Board evaluation process.

### 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 established a Risk Framework that enables 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](http://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.



Residential property in the United Kingdom

## GOVERNANCE

# Audit and Risk Committee Report

## Dear Shareholders,

On the following pages, we present the Audit and Risk Committee's report for 2024, setting out the responsibilities of the Audit and Risk Committee and its key activities during the year ended 31 March 2024. 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.

## 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, Mrs McHugh and Mr Tautscher. 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, Mr Hallam and Mr Tautscher 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 external auditor's remuneration and engagement, as well as the external 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 external 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 external auditor's work and reviews their performance annually prior to providing a recommendation to the Board on the reappointment or removal of the external 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 yield calculated 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 a 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.

## Audit and Risk Committee Report (continued)

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 external 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").

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 macroeconomic 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 2024.

### 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 Risk Framework and the 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. There will be a tender process in the second half of 2024 to appoint new external auditors.

The objectivity of the external 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 external 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 review by a member of the Independent Professional Standard Review Team.

The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the external 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 2023 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.

The auditors will have been in place for 20 years after the year ending 31 March 2025. Therefore a tender exercise will take place in the autumn to appoint new auditors for the year ended 31 March 2026 to maintain auditor independence.

## Annual Report

The Audit Committee members have each reviewed the Annual Report and earlier drafts in detail, comparing its content with their own knowledge of the Company, reporting requirements and Shareholders' expectations. Formal meetings of the Audit Committee have also reviewed reports and explanations from its service providers about the details and the financial results.

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 external auditor and their handling of key accounting and audit judgements.

To assess the effectiveness of the external 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 external 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 2024, the external 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**  
**19 June 2024**

## 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 (as amended) 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 Companies 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 (as amended). 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:

- 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;
- 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
- 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 external 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, is 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  
19 June 2024

**Susie Farnon**  
Director



University Campus building in France

# Financial Statements

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# 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 2024 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.

### 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

#### Materiality

The materiality that we used in the current year was £6.5 million which was determined on the basis of approximately 2% of the 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.

### 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.

## 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 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;
- 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 considering the mitigating actions identified by the Directors as available responses to liquidity risks; and
- Assessing the financial statements related disclosures to evaluate whether they appropriately explain assumptions made by management and the key mitigations.

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.

### 5.1 Key judgement in the valuation of bilateral loan and bond portfolio

**Key audit matter description** The bilateral loan and bond investments of £305.0 million (2023: £341.5 million) make up 87% (2023: 82%) 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 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 Notes 3 and 15 to the financial statements. This is further described in the Audit and Risk Committee Report on pages 52 to 55.

## Independent Auditor's Report (continued)

### 5.1 Key judgement in the valuation of bilateral loan and bond portfolio <>

#### 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 relevant controls around the valuation process;
- Challenged management's use of the bond or loan's effective yield as a representative of market yield by performing management enquiries and assessing the assumptions used, including considering potentially contradictory evidence;
- 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 potentially contradictory evidence by assessing the consistency of management's judgements with 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; and
- 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 is reasonable, and that the resulting valuations are not materially misstated. We also concluded that the related disclosures are appropriate.

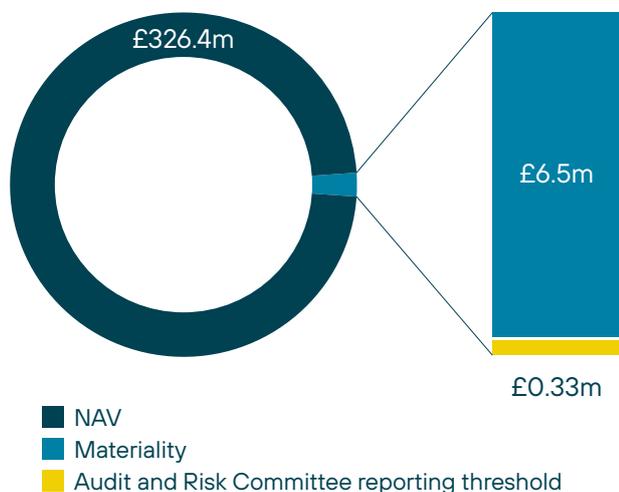
## 6. Our application of materiality

### 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:

<b>Materiality</b>	£6.5 million (2023: £6.7 million)
<b>Basis for determining materiality</b>	2% (2023: 2%) of the Net Asset Value as at 31 March
<b>Rationale for the benchmark applied</b>	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 2024 audit (2023: 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, including the nature and volume of corrected and uncorrected misstatements.

## 6.3 Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £326,000 (2023: £336,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 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 tested the relevant controls at the investment manager level around the key valuation judgement used in the valuation but we have not placed reliance on those controls in performing our audit.

## 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 28.

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 the climate related disclosures 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.

## Independent Auditor's Report (continued)

### 9. Responsibilities of directors

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

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

### 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: [frc.org.uk/auditorsresponsibilities](https://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 19 June 2024;
- results of our enquiries of management and the audit and risk committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Company's sector;
- 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.

### 11.2 Audit response to risks identified

As a result of performing the above, we identified the 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 and Risk 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 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 42;
- 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 56;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 50;

- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 48; and
- the section describing the work of the Audit and Risk Committee set out on pages 52 to 55.

### 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.

## Independent Auditor's Report (continued)

### 14. Other matters which we are required to address

#### 14.1 Auditor tenure

We were appointed by the Company upon inception on 6 September 2005 to audit the financial statements of the Company for the period ending 31 March 2006 and subsequent financial periods. Following a competitive tender process, we were reappointed 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 19 years, covering the years ending 31 March 2006 to 31 March 2024.

#### 14.2 Consistency of the audit report with the additional report to the Audit and Risk Committee

Our audit opinion is consistent with the additional report to the Audit and Risk 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**  
**19 June 2024**

# Statement of Comprehensive Income

For the year ended 31 March 2024

	Note	31 Mar 2024 GBP	31 Mar 2023 GBP
Interest income	6	30,341,179	31,922,543
Net gains on financial assets and liabilities at fair value through profit or loss	4	634,788	806,708
Net foreign currency gains/(losses)		259,847	(2,070,857)
Other income		123,121	7,940
<b>Operating income</b>		<b>31,358,935</b>	<b>30,666,334</b>
Operating expenses	5	(5,989,327)	(6,143,662)
<b>Profit before finance costs</b>		<b>25,369,608</b>	<b>24,522,672</b>
Finance costs	6	(3,514,078)	(3,972,353)
<b>Net profit</b>		<b>21,855,530</b>	<b>20,550,319</b>
Other comprehensive income		–	–
<b>Total comprehensive income</b>		<b>21,855,530</b>	<b>20,550,319</b>
<b>Earnings per share</b>			
Basic and diluted	8	9.6p	9.0p
<b>Weighted average shares outstanding</b>			
Basic and diluted	8	228,777,629	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 2024

	Note(s)	31 Mar 2024 GBP	31 Mar 2023 GBP
<b>Non-current assets</b>			
Financial assets at fair value through profit or loss	9, 15	329,368,799	400,741,910
		329,368,799	400,741,910
<b>Current assets</b>			
Cash and cash equivalents	9	18,289,567	14,081,343
Cash collateral at broker	9, 17	4,489,272	2,383,962
Derivative financial assets	9, 10	–	1,756,118
Other assets	9	104,298	27,345
		22,883,137	18,248,768
<b>Total assets</b>		<b>352,251,936</b>	<b>418,990,678</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	14	331,405,039	336,965,907
Treasury shares	14	(5,023,350)	–
<b>Total equity</b>		<b>326,381,689</b>	<b>336,965,907</b>
<b>Current liabilities</b>			
Financing agreements	9, 13	23,789,792	80,441,157
Cash collateral due to broker	9	14,400	–
Derivative financial liabilities	9, 10	87,967	–
Other liabilities	9, 11	1,978,088	1,583,614
		25,870,247	82,024,771
<b>Total liabilities</b>		<b>25,870,247</b>	<b>82,024,771</b>
<b>Total equity and liabilities</b>		<b>352,251,936</b>	<b>418,990,678</b>
<b>Shares outstanding</b>	14	225,237,478	229,332,478
<b>Net asset value per share</b>		£1.45	£1.47

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

Signed on behalf of the Board of Directors by:

Bob Cowdell      Susie Farnon  
Director          Director  
19 June 2024

## Statement of Changes in Equity

For the year ended 31 March 2024

	Note	Share capital GBP	Treasury shares GBP	Total equity GBP
<b>Balance as at 31 March 2023</b>		<b>336,965,907</b>	<b>–</b>	<b>336,965,907</b>
Total comprehensive income		21,855,530	–	21,855,530
Dividends	7	(27,416,398)	–	(27,416,398)
Treasury shares purchased	14	–	(5,023,350)	(5,023,350)
<b>Balance as at 31 March 2024</b>		<b>331,405,039</b>	<b>(5,023,350)</b>	<b>326,381,689</b>

	Note	Share capital GBP	Treasury shares GBP	Total equity GBP
<b>Balance as at 31 March 2022</b>		<b>343,935,484</b>	<b>–</b>	<b>343,935,484</b>
Total comprehensive income		20,550,319	–	20,550,319
Dividends	7	(27,519,896)	–	(27,519,896)
<b>Balance as at 31 March 2023</b>		<b>336,965,907</b>	<b>–</b>	<b>336,965,907</b>

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

## Statement of Cash Flows

For the year ended 31 March 2024

	Note	31 Mar 2024 GBP	31 Mar 2023 GBP
<b>Net profit</b>		<b>21,855,530</b>	<b>20,550,319</b>
Purchases of investment portfolio		(81,363,953) <sup>1</sup>	(158,644,471)
Repayments/sales proceeds on investment portfolio		155,247,148	158,975,081
Movement in realised and unrealised losses/(gains) on investment portfolio	4	5,980,571	(4,466,341)
Net movement on derivative financial assets and liabilities		1,844,085	(2,828,910)
Interest income		(30,341,179)	(31,922,543)
Finance costs		3,514,078	3,972,353
<b>Operating cash flows before movement in working capital</b>		<b>76,736,280</b>	<b>(14,364,512)</b>
(Increase)/decrease in cash collateral at broker		(2,105,310)	2,820,730
Increase in other assets		(76,953)	(4,637)
Increase in cash collateral due to broker		14,400	–
Increase in other liabilities		394,474	200,882
<b>Movement in working capital</b>		<b>(1,773,389)</b>	<b>3,016,975</b>
Interest received		21,850,524 <sup>1</sup>	29,657,468
<b>Net cash inflow from operating activities</b>		<b>96,813,415</b>	<b>18,309,931</b>
<b>Financing activities</b>			
Dividends paid to Shareholders	7	(27,416,398)	(27,519,896)
Payments under financing agreements	13	(297,180,747)	(689,398,896)
Proceeds under financing agreements	13	240,694,426	666,877,816
Finance costs paid	13	(3,679,122)	(1,572,750)
Payments on treasury shares purchased	14	(5,023,350)	–
<b>Net cash outflow from financing activities</b>		<b>(92,605,191)</b>	<b>(51,613,726)</b>
Net increase/(decrease) in cash and cash equivalents		4,208,224	(33,303,795)
Cash and cash equivalents at the start of the year		14,081,343	47,385,138
<b>Cash and cash equivalents at the end of the year</b>		<b>18,289,567</b>	<b>14,081,343</b>

<sup>1</sup> Excludes payment-in-kind amounting to £13,800,493 for the year ended 31 March 2024.

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

# Notes to the Financial Statements

For the year ended 31 March 2024

## 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. Material 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"), International Accounting Standards ("IAS") 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 2023.

### New Standards, Amendments and Interpretations Issued and Effective for the Financial Year Beginning 1 April 2023

#### Amendments to IFRS 17 – Insurance contracts

In June 2020, the IASB issued amendments to IFRS 17 Insurance Contracts to provide three additional transition reliefs relating to: (1) contracts acquired before transition, (2) the risk mitigation option at transition, and (3) investment contracts with discretionary participation features. Issued in May 2017, IFRS 17 sets out the requirements for an entity reporting information about insurance contracts it issues and reinsurance contracts it holds. IFRS 17 replaces an interim Standard – IFRS 4 Insurance Contracts – from annual reporting periods beginning on or after 1 January 2023. Entities have been required to apply IFRS 9 Financial Instruments since annual reporting periods beginning on or after 1 January 2018. However, IFRS 4 has allowed the temporary deferral of the application of IFRS 9. Entities that have elected to defer IFRS 9 application have instead continued to apply IAS 39 Financial Instruments: Recognition and Measurement. The IASB extended the fixed expiry date for the temporary deferral to annual reporting periods beginning on or after 1 January 2023. The amendments have no material impact on the financial statements of the Company.

#### Amendments to IAS 8 – Definition of Accounting Estimates

In February 2021, the IASB issued amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, in which it introduced a new definition of 'accounting estimates'. The amendments 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. The amendments should provide helpful guidance for entities in determining whether changes are to be treated as changes in estimates, changes in policies, or errors. The amendments to IAS 8 are effective for annual

## Notes to the Financial Statements (continued)

periods beginning on or after 1 January 2023. The amendments have no material impact on the financial statements of the Company.

### Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies

In February 2021, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements, in which it provided guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by (i) replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and (ii) adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. Determining whether accounting policies are material or not requires use of judgement. Therefore, entities are encouraged to revisit their accounting policy information disclosures to ensure consistency with the amended standard. Entities should carefully consider whether 'standardised information, or information that only duplicates or summarises the requirements of the IFRSs' is material information and, if not, whether it should be removed from the accounting policy disclosures to enhance the usefulness of the financial statements. The amendments to IAS 1 and IFRS Practice Statement 2 are effective for annual periods beginning on or after 1 January 2023. The amendments have no material impact on the financial statements of the Company as the accounting policies disclosed are considered material.

### Amendments to IAS 12 – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

In May 2021, the IASB issued amendments to IAS 12 Income Taxes, which narrowed the scope of the initial recognition

exception under IAS 12, so that it no longer applied to transactions that give rise to equal taxable and deductible temporary differences. The amendments 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). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability. The amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2023. The amendments have no material impact on the financial statements of the Company.

### Amendments to IAS 12 – International Tax Reform – Pillar Two Model Rules

In May 2023, the IASB issued amendments to IAS 12, in response to the Organisation for Economic Co-operation and Development's Base Erosion and Profit Shifting Pillar Two rules and include:

A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and

Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The mandatory temporary exception, the use of which is required to be disclosed, applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023. 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 2023 and not Early Adopted

Title	Effective for periods beginning on or after
Amendments to IAS 1 – <i>Classification of Liabilities as Current or Non-current</i>	1 January 2024
Amendments to IAS 7 and IFRS 7 – <i>Supplier Finance Arrangements</i>	1 January 2024
Amendments to IFRS 16 – <i>Lease Liability in a Sale and Leaseback</i>	1 January 2024
Amendments to IAS 1 – <i>Non-current Liabilities with Covenants</i>	1 January 2024
Amendments to IAS 21 – <i>Lack of Exchangeability</i>	1 January 2025

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current 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 7 and IFRS 7 have no material impact on the financial statements as the Company does not have supplier finance arrangements.

Amendments to IFRS 16 have no material impact on the financial statements as the Company does not have sale and leaseback transactions.

Amendments to IAS 1 – Non-current Liabilities with Covenants improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with covenants. The amendments also respond to stakeholders' concerns about the classification of such a liability as current or non-current. 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 21 provide guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not. 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 geopolitical and 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).

Taking account of the updated forecasting, the Directors consider that the cash resources available as at 31 March 2024 of £18.3 million (31 March 2023: £14.1 million), together with the cash collateral at broker of £4.5 million (31 March 2023: £2.4 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 2024 was 1.5% (31 March 2023: 19.1%).

As disclosed in Note 19, as at 31 March 2024, the Company had committed £489.0 million into the loan and bond portfolio of which £352.1 million had been funded (31 March 2023: £572.0 million commitment of which £367.8 million had been funded). The Investment Manager models these expected commitments and only funds if the borrowers meet specific business plan milestones.

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 cessation or delay of any future dividends, obtaining longer-term and non-recourse financing, and further sales of assets within the bond portfolio.

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.

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

## Notes to the Financial Statements (continued)

cash flows of the Company's debt securities are not solely principal and interest. 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 are reported as part of financial assets at fair value through profit or loss. The related interest income and finance costs were included under interest income and finance costs accounts in the Statement of Comprehensive Income.

### 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.

### 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

Financial liabilities at amortised cost include all other liabilities not measured at fair value through profit or loss. This includes cash collateral due to broker and 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 financing agreements 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 less expected credit losses.

### 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.

### 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 and are used for cash management purposes.

### 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 in the Statement of Comprehensive Income on the maturity of a contract, or when the contract is closed out.

### 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 new 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 Share capital 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 net foreign currency gains/(losses) 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.

### Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

## Notes to the Financial Statements (continued)

### Treasury shares

Shares that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's shares. Any difference between the carrying amount and the consideration, if reissued, is recognised in the share premium. Treasury shares are not entitled to dividends, and thus, they are also not included in the calculation of earnings per share.

### Other Liabilities

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

### Segment Information

The Company has three reportable segments, being the Market Bond Portfolio, Bilateral Loan and Bond Portfolio and Equity Securities. 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 Guarantees

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 Bilateral Loan and Bonds as Financial Assets at Fair Value Through Profit or Loss

As described on page 74, 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.

In making the judgement regarding Stornoway Finance S.à r.l., ENIV S.à r.l. and Real Estate Loan Funding ("RELF"), 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 as described above, these assets would be classified and measured at amortised cost with provisions made for expected credit losses and changes to expected credit losses at each reporting date.

As further described on page 74, 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., ENIV S.à r.l. and RELF, 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.

Despite the foregoing, the Company may irrevocably designate a debt investment that meets the amortised cost criteria as measured at fair value through profit or loss, if doing so eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

### Key Sources of Estimation Uncertainty

#### Valuation of Bilateral Loans and Bonds at Fair Value Through Profit or Loss

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 effective yield represents the most appropriate point estimate within that range.

The Investment Manager has considered relevant geopolitical and macroeconomic 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 2023: 6.2% to 13.2%).

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 increased interest rates, heightened inflation, supply chain disruption, the continuing impact of conflicts around the world; and 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 2024. Future valuation might change significantly in the future.

Further details relating to the Company's valuation of bilateral loans and bonds and sensitivity analysis is disclosed in Notes 15(a) and 15(d).

## Notes to the Financial Statements (continued)

### 4. Net Gains on Financial Assets and Liabilities at Fair Value Through Profit or Loss

	31 Mar 2024 GBP	31 Mar 2023 GBP
<b>Net gains/(losses)</b>		
Net gains/(losses) on market bond portfolio	1,807,597	(8,155,580)
Net (losses)/gains on bilateral loan and bond portfolio	(2,512,410)	10,101,376
Net (losses)/gains on equity securities	(5,275,758)	2,520,545
Net gains/(losses) on foreign exchange instruments	6,615,359	(3,659,633)
<b>Net gains on financial assets and liabilities at fair value through profit or loss</b>	<b>634,788</b>	<b>806,708</b>

### 5. Operating Expenses

	Note	31 Mar 2024 GBP	31 Mar 2023 GBP
<b>Investment management, administration and depositary fees</b>			
Investment management fees	18	4,204,910	4,296,688
Administration fees	18	278,720	276,595
Depositary fees	18	64,126	65,137
		<b>4,547,756</b>	<b>4,638,420</b>
<b>Other operating expenses</b>			
Directors' fees		231,550	215,000
Legal fees		220,875	456,542
Audit fees		155,375	140,775
Research fees		137,467	35,000
Corporate secretary fees		105,048	96,214
Registration fees		60,000	60,000
Fees to auditor for non-audit services		42,500	39,500
Directors and Officers' insurance fees		19,991	24,547
Regulatory body expenses		18,888	23,732
Other expenses		449,877	413,932
		<b>1,441,571</b>	<b>1,505,242</b>
<b>Total operating expenses</b>		<b>5,989,327</b>	<b>6,143,662</b>

The ongoing costs of the Company are shown in the Key Information Document ("KID") published on the Company's website. The total figure of 2.94% (31 March 2023: 2.23%) is made up of the Investment Manager's fee of 1.25% (31 March 2023: 1.25%), other ongoing costs of 0.54% (31 March 2023: 0.42%), and finance costs (which are disclosed separately in the financial statements) of 1.15% (31 March 2023: 0.56%). 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 2024 GBP	31 Mar 2023 GBP
<b>Interest income on financial assets at fair value through profit or loss</b>		
Real Estate Credit Investments – market bond portfolio	1,482,514	4,960,473
Real Estate Credit Investments – bilateral loan and bond portfolio	28,412,548	26,747,271
	29,895,062	31,707,744
<b>Interest income on financial assets at amortised cost</b>		
Cash and cash equivalents and other receivables	446,117	214,799
<b>Total interest income</b>	<b>30,341,179</b>	<b>31,922,543</b>
<b>Finance costs</b>		
Cost of financing agreements	(3,514,078)	(3,972,353)
<b>Total finance costs</b>	<b>(3,514,078)</b>	<b>(3,972,353)</b>

## 7. Dividends

	31 Mar 2024 GBP	31 Mar 2023 GBP
<b>Share dividends</b>		
Fourth dividend for the year ended 31 March 2023/31 March 2022	6,879,974	6,879,974
First dividend for the year ended 31 March 2024/31 March 2023	6,879,974	6,879,974
Second dividend for the year ended 31 March 2024/31 March 2023	6,879,974	6,879,974
Third dividend for the year ended 31 March 2024/31 March 2023	6,776,476	6,879,974
<b>Dividends paid to Shareholders</b>	<b>27,416,398</b>	<b>27,519,896</b>

The total dividends paid during the financial year ended 31 March 2024 amounted to 12.0 pence per share (31 March 2023: 12.0 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 2023 to 31 March 2024.

## 8. Earnings per share

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

	31 Mar 2024	31 Mar 2023
Net earnings attributable to shares (GBP)	21,855,530	20,550,319
Weighted average number of shares for the purposes of basic and diluted earnings per share <sup>1</sup>	<b>228,777,629</b>	<b>229,332,478</b>
<b>Earnings per share</b>		
Basic and diluted (pence)	<b>9.6</b>	<b>9.0</b>

<sup>1</sup> The weighted average number of shares takes into account the weighted average effect of changes in treasury shares during the year.

## Notes to the Financial Statements (continued)

### 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 2024 GBP	31 Mar 2023 GBP
<b>Assets</b>		
Financial assets at fair value through profit or loss:		
Real Estate Credit Investments – market bond portfolio	7,893,959	49,243,187
Real Estate Credit Investments – bilateral loan and bond portfolio	305,036,801	341,474,617
Real Estate Credit Investments – equity securities	16,438,039	10,024,106
<b>Financial assets at fair value through profit or loss</b>	<b>329,368,799</b>	<b>400,741,910</b>
Derivative financial assets:		
Forward foreign exchange contracts	–	1,756,118
Financial assets at amortised cost:		
Cash and cash equivalents	18,289,567	14,081,343
Cash collateral at broker	4,489,272	2,383,962
Other assets	104,298	27,345
<b>Total assets</b>	<b>352,251,936</b>	<b>418,990,678</b>
<b>Liabilities</b>		
Financial liabilities at fair value through profit or loss:		
Financing agreements	23,789,792	80,441,157
Derivative financial liabilities:		
Forward foreign exchange contracts	87,967	–
Financial liabilities at amortised cost:		
Cash collateral due to broker	14,400	–
Other liabilities	1,978,088	1,583,614
<b>Total liabilities</b>	<b>25,870,247</b>	<b>82,024,771</b>

The value of the market bond was £7.8 million as at 31 March 2024, excluding accrued interest of £0.1 million (31 March 2023: £48.9 million, excluding accrued interest of £0.3 million); and the value of the bilateral loan and bond portfolio were £296.0 million as at 31 March 2024, excluding accrued interest of £9.0 million (31 March 2023: £327.4 million, excluding accrued interest of £14.1 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 2024:

Counterparty	Settlement date	Buy currency	Buy amount	Sell currency	Sell amount	Unrealised loss GBP
The Bank of New York Mellon	16 May 2024	GBP	153,069,538	EUR	(178,830,000)	(87,967)
<b>Unrealised loss on forward foreign exchange contracts</b>						<b>(87,967)</b>

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
<b>Unrealised gain on forward foreign exchange contracts</b>						<b>1,756,118</b>

## 11. Other Liabilities

	31 Mar 2024 GBP	31 Mar 2023 GBP
<b>Investment management, depositary and administration fees payable</b>		
Investment management fees payable	317,221	358,118
Depositary fees payable	66,708	33,090
Administration fees payable	37,548	41,939
	421,477	433,147
<b>Other operating payables</b>		
Registration fees payable	148,917	88,917
Legal fees payable	86,436	73,800
Audit fees payable	85,375	30,775
Directors' fees payable	57,887	53,750
Corporate Secretary fees payable	37,500	18,750
Research fees payable	35,144	17,644
Other expense accruals	1,105,352	866,831
	1,556,611	1,150,467
<b>Total other liabilities</b>	<b>1,978,088</b>	<b>1,583,614</b>

## 12. Structured Entities Not Consolidated

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

- restricted activities;
- a narrow and well defined objective, such as to effect a tax-efficient lease, carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Company has concluded that the unlisted entities in which it invests, but does not consolidate, meet the definition of structured entities. Cheyne utilises structured entities in order to obtain leverage, whilst limiting recourse to the underlying funds. Cheyne implements an off-balance sheet funding structure by establishing an orphan SPV ("LOL Vehicle") to own and manage a discrete, diversified pool of repackaged senior debt exposures financed pro rata by Cheyne funds and a bank. The Sponsors who will fund the Orphan SPV will be a combination of Cheyne managed funds, of which RECI is one. The bank lender faces RELF (an orphan SPV established for the purpose of holding and financing a discrete pool of senior mortgage exposures, held in listed/cleared bond format). RECI, alongside other participating Cheyne funds, holds asset-linked notes issued by RELF. The recourse is either to the RELF only, or via certain limited recourse fund guarantees (i.e. maximum 25% of amounts borrowed). Financing is "off-balance sheet" and all other assets in RECI are unencumbered, except insofar as a limited recourse guarantee is provided. This arrangement limits RECI's exposure to the underlying credit(s) and financing. 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 Consolidated Financial Statements 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 on the next page. The maximum exposure to loss is the carrying amount of the financial assets held as at 31 March 2024 and 31 March 2023.

## Notes to the Financial Statements (continued)

31 March 2024

Name	Fair value of loans <sup>1</sup> GBP	Undrawn commitment GBP	Carrying value GBP	Nature and purpose of the entity	Location	Equity held	Percentage held <sup>2</sup> %	Other exposure <sup>3</sup>
REL <sup>4</sup>								
Fulton Road	15,261,761	17,463,239	452,856	To invest in Fulton Road real estate	United Kingdom	No	–	No
Kensington	17,550,039	235,920	8,035,371	To invest in Kensington real estate	United Kingdom	No	–	No
Lifestory	12,650,000	–	4,162,723	To invest in Lifestory real estate	Luxembourg	No	–	No
Ruby	8,193,829	1,559,872	4,166,958	To invest in Ruby real estate	Luxembourg	No	–	No
Sabina	15,868,950	6,562,102	8,865,264	To invest in Sabina real estate	Luxembourg	No	–	No
Cheyne French Funding Sub-Fund 3	10,371,910	3,298,879	10,371,911	To invest in Cheyne French Funding Sub-Fund 3 real estate	France	No	–	No
Cheyne French Funding Sub-Fund 8	24,477,358	5,202,294	24,477,370	To invest in Cheyne French Funding Sub-Fund 8 real estate	France	No	–	No

<sup>1</sup> This amount excludes interest receivables.

<sup>2</sup> RECI has interest in the structured entities through loan notes instruments and hence the equity percentage held is nil.

<sup>3</sup> 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.

<sup>4</sup> The total loan exposure on RELF will not equal the carrying value disclosed above due to financing within the RELF structure.

31 March 2023

Name	Fair value of loans <sup>1</sup> GBP	Undrawn commitment GBP	Carrying value GBP	Nature and purpose of the entity	Location	Equity held	Percentage held <sup>2</sup> %	Other exposure <sup>3</sup>
REL <sup>4</sup>								
Earlsfield	12,612,167	707,833	6,530,846	To invest in Earlsfield real estate	United Kingdom	No	–	No
Kensington	8,896,085	10,737,000	4,143,684	To invest in Kensington real estate	United Kingdom	No	–	No
Lifestory	8,215,843	4,434,157	4,713,773	To invest in Lifestory real estate	Luxembourg	No	–	No
Pamplona	3,084,772	1,469,228	1,729,737	To invest in Pamplona real estate	Luxembourg	No	–	No
Ruby	2,807,680	8,577,320	1,833,373	To invest in Ruby real estate	Luxembourg	No	–	No
Sabina	–	–	6,465,322	To invest in Sabina real estate	Luxembourg	No	–	No
Cheyne French Funding Sub-Fund 3	11,650,667	3,630,876	11,650,667	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	22,666,471	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	8,471,940	To invest in Cheyne French Funding Sub-Fund 9 real estate	France	No	–	No

<sup>1</sup> This amount excludes interest receivables.

<sup>2</sup> RECI has interest in the structured entities through loan notes instruments and hence the equity percentage held is nil.

<sup>3</sup> 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.

<sup>4</sup> The total loan exposure on RELF will not equal the carrying value disclosed above due to financing within the RELF structure.

### 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 £39.5 million (31 March 2023: £139.9 million) and a weighted average cost of 7.73% (31 March 2023: 5.86%) per annum. The contractual maturity period of the repurchase arrangements is 3 to 6 months (31 March 2023: 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 agreements amounting to £56.5 million (31 March 2023: £22.5 million) and finance costs paid amounting to £3.7 million (31 March 2023: £1.6 million) are shown as financing activity in the Statement of Cash Flows.

The following table summarises movements under financing agreements as at 31 March 2024 and 31 March 2023.

	31 Mar 2024 GBP	31 Mar 2023 GBP
Balance as at 1 April	80,441,157	100,562,634
Proceeds under financing agreements	240,694,426	666,877,816
Payments under financing agreements	(297,180,747)	(689,398,896)
Finance costs	3,514,078	3,972,353
Finance costs paid	(3,679,122)	(1,572,750)
	<b>23,789,792</b>	<b>80,441,157</b>

During the financial year ended 31 March 2024, 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 2024 was £33.9 million (31 March 2023: £20.6 million).

During the financial year ended 31 March 2024, the Company continued to maintain an off-balance sheet financing agreement which does have partial recourse to the Company. The amount of partial recourse commitment as at 31 March 2024 was £3.9 million (31 March 2023: £2.9 million). 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 2024, the Company had capital of £326.4 million (31 March 2023: £337.0 million).

Authorised Share Capital	31 Mar 2024 Number of Shares	31 Mar 2023 Number of Shares
Shares of no par value each	Unlimited	Unlimited
<b>Shares issued and fully paid</b>		
Shares at the start of the year	229,332,478	229,332,478
Shares repurchased and held in treasury	(4,095,000)	-
<b>Shares at the end of the year</b>	<b>225,237,478</b>	<b>229,332,478</b>

## Notes to the Financial Statements (continued)

The below table provides a reconciliation of the impact of the shares repurchased and held in treasury versus the data presented in the original March 2024 Fact Sheet which did not account correctly for the buybacks. The March 2024 Fact Sheet was subsequently re-published.

	Fact Sheet	Financial Statements	Difference	Description
Shares	229,332,478	225,237,478	4,095,000	Shares repurchased and held in treasury
AUM	£331,405,039	£326,381,689	£5,023,350	Cost of buyback
NAV per share	£1.45	£1.45	–	

Treasury Shares	31 Mar 2024 Number of Shares	31 Mar 2023 Number of Shares
Shares repurchased and held in treasury	4,095,000	–

Pursuant to the share buyback authority approved by the Company's Shareholders at the AGM on 15 September 2023, the Board has granted authority to the Company's broker, Liberum Capital Limited, to purchase the Company's shares in the market, subject to pre-agreed parameters. All shares purchased during the year are held in treasury.

The Company purchased 4.1 million (31 March 2023: Nil) shares in the market during the year. The total amount paid to purchase the shares was £5.0 million (31 March 2023: £Nil) and this was presented as a reduction from the total equity.

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 is a closed-ended listed investment company and, as such, Shareholders in the Company have no right to redeem their shares. Any redemption offered to Shareholders shall be at the discretion of the Directors of the Company.

The Company currently conducts its affairs so that the shares issued by the Company can be recommended by Independent Financial Advisers to ordinary retail investors in accordance with the FCA rules in relation to non-mainstream pooled investment products and intends to continue to do so for the foreseeable future. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment company, which if it were domiciled in the United Kingdom, would currently qualify as an investment trust.

There were no changes in the policies and procedures during the year ended 31 March 2024 with respect to the Company's approach to its share capital management.

### 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 risk (including currency risk and interest rate risk), credit risk, liquidity risk and prepayment and re-investment risks. 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 currency risk, interest rate 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. The sensitivity analyses are based on the Investment Manager's best estimate of reasonably possible changes in interest rates, foreign currency rates and market

prices. In practice the actual trading results may differ from the sensitivity analyses in the following pages and the differences may be material.

#### (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 primary purpose of the Company's foreign currency economic hedging activities is to protect against the volatility associated with investments denominated in foreign currencies and other financial assets and liabilities created in the normal course of business.

The Company is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Company's financial assets or liabilities denominated in currencies other than GBP.

The Company may enter into spot currency transactions or utilise derivatives such as forwards to hedge against currency fluctuations.

The Company manages its foreign exchange exposure with 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 2024:

Currency	Monetary Assets GBP	Monetary Liabilities GBP	Forward Foreign Exchange Contracts GBP	Net currency exposure GBP
GBP	195,176,694	(17,112,488)	153,069,538	331,133,744
EUR	157,068,770	(8,669,792)	(153,157,505)	(4,758,527)
USD	6,472	–	–	6,472
	<b>352,251,936</b>	<b>(25,782,280)</b>	<b>(87,967)</b>	<b>326,381,689</b>

#### As at 31 March 2023:

Currency	Monetary Assets GBP	Monetary Liabilities GBP	Forward Foreign Exchange Contracts GBP	Net currency exposure GBP
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
	<b>417,234,560</b>	<b>(82,024,771)</b>	<b>1,756,118</b>	<b>336,965,907</b>

As at 31 March 2024, 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 2023.

By 5%	31 Mar 2024 GBP	31 Mar 2023 GBP
EUR	(237,926)	(418,292)
USD	324	322
<b>Total</b>	<b>(237,602)</b>	<b>(417,970)</b>

By 10%	31 Mar 2024 GBP	31 Mar 2023 GBP
EUR	(475,853)	(836,583)
USD	647	643
<b>Total</b>	<b>(475,206)</b>	<b>(835,940)</b>

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.

## Notes to the Financial Statements (continued)

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). The decision to enter into a fixed or a floating rate deal is agreed with the borrower on a loan by loan basis. Interest rate risk arises from the effects of fluctuations in the prevailing rates on the fair 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 effective yield 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 macroeconomic 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 2023: 1% (100 basis points) or 5% (500 basis points)) on the NAV of the Company, is a decrease of £4.4 million or £22.1 million (31 March 2023: £6.3 million or £31.7 million), respectively. A decrease in interest rates by 1% (100 basis points) or 5% (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 2024 and 31 March 2023, and their weighted average lives.

The interest rate profile of the Company as at 31 March 2024 was as follows:

	Fixed GBP	Floating GBP	Non-interest bearing GBP	Total GBP
Financial assets at fair value through profit or loss	195,849,055	108,201,524	25,318,220 <sup>1</sup>	329,368,799
Cash and cash equivalents	–	18,289,567	–	18,289,567
Cash collateral at broker	–	4,489,272	–	4,489,272
Other assets	–	–	104,298	104,298
Financing agreements	–	(23,667,814)	(121,978) <sup>2</sup>	(23,789,792)
Cash collateral due to broker	–	(14,400)	–	(14,400)
Derivative financial liabilities – forward foreign exchange contracts	–	–	(87,967)	(87,967)
Other liabilities	–	–	(1,978,088)	(1,978,088)
<b>Total</b>	<b>195,849,055</b>	<b>107,298,149</b>	<b>23,234,485</b>	<b>326,381,689</b>

<sup>1</sup> Accrued interest and equity securities related to financial assets at fair value through profit or loss.

<sup>2</sup> Interest payable related to financing agreements.

The maturity profile of the Company as at 31 March 2024 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	105,966,061	223,365,548	37,190	329,368,799
Cash and cash equivalents	18,289,567	–	–	18,289,567
Cash collateral at broker	4,489,272	–	–	4,489,272
Other assets	104,298	–	–	104,298
Financing agreements	(23,789,792)	–	–	(23,789,792)
Cash collateral due to broker	(14,400)	–	–	(14,400)
Derivative financial liabilities – forward foreign exchange contracts	(87,967)	–	–	(87,967)
Other liabilities	(1,978,088)	–	–	(1,978,088)
<b>Net Assets</b>	<b>102,978,951</b>	<b>223,365,548</b>	<b>37,190</b>	<b>326,381,689</b>

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	277,244,059	99,067,135	24,430,716 <sup>1</sup>	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	–	(80,154,135)	(287,022) <sup>2</sup>	(80,441,157)
Other liabilities	–	–	(1,583,614)	(1,583,614)
<b>Total</b>	<b>277,244,059</b>	<b>35,378,305</b>	<b>24,343,543</b>	<b>336,965,907</b>

<sup>1</sup> Accrued interest and equity securities related to financial assets at fair value through profit or loss.

<sup>2</sup> Interest payable related to financing agreements.

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	(80,441,157)	–	–	(80,441,157)
Other liabilities	(1,583,614)	–	–	(1,583,614)
<b>Net Assets</b>	<b>17,800,010</b>	<b>150,257,260</b>	<b>168,908,637</b>	<b>336,965,907</b>

The value of the asset-backed securities will fluctuate as a result of changes in market prices (other than those arising from currency risk or interest rate 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.

## Notes to the Financial Statements (continued)

### (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.

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 2023: AA-) according to Standard and Poor's.

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

	31 Mar 2024 GBP	31 Mar 2023 GBP
<b>Instrument</b>		
Real Estate Credit Investments – market bond portfolio	7,893,959	49,243,187
Real Estate Credit Investments – bilateral loan and bond portfolio	305,036,801	341,474,617
Cash and cash equivalents	18,289,567	14,081,343
Cash collateral at broker	4,489,272	2,383,962
Derivative financial assets	–	1,756,118
<b>Total</b>	<b>335,709,599</b>	<b>408,939,227</b>

#### 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 2024 amounted to £305.0 million (31 March 2023: £341.5 million) which includes accrued interest on loans and bonds of £9.0 million (31 March 2023: £14.1 million) at this date.

A monthly Watch List review process is implemented for all defaulted positions. Recovery probability and estimated recovery value are reviewed together by Risk Management and investment analysts. The below table splits the investment portfolio into buckets based on a grading system in place as part of the Company's performance evaluation.

Simplified	Company risk grade	Equivalent Rating	2024 <sup>1</sup>	2023 <sup>1</sup>
Low Risk	1	AAA	–	1,484,666
	2	AA	–	7,783,939
	3	A	–	11,460,219
Moderate Risk	4	BBB	174,880,133	294,722,536
Substantial Risk	5	BB	40,902,821	8,859,812
High Risk	6	B	91,429,447	54,304,342
Default Risk	7	CCC	–	–
	8	CC	142,220	–
	9	C	10,371,911	–
	10	D	2,545,495	7,719,786

<sup>1</sup> Excludes interest receivables.

### 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 in 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 in the Statement of Financial Position.

Below are the derivative liabilities by counterparty and details of the collateral received and pledged by the Company as at 31 March 2024:

Derivative Type	Counterparty	Value of derivative liabilities GBP	Collateral received GBP	Collateral pledged <sup>1</sup> GBP	Net (if greater than zero) GBP
Forward foreign exchange contracts	The Bank of New York Mellon	(87,967)	–	87,967	–

<sup>1</sup> Over collateralisation is not presented in this table. The amount of collateral reflected is limited to the amount of the derivative liabilities.

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

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.

## Notes to the Financial Statements (continued)

### 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 and 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 2023: 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 policy and the Investment Manager's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Company's reputation. In managing the Company's assets therefore, the Investment Manager seeks to ensure that the Company holds at all times a sufficient portfolio of assets listed on recognised investment exchanges to enable it to discharge its payment obligations. The Investment Manager monitors the Company's liquidity position on a daily basis. Where needed, the Investment Manager will liquidate positions to increase cash or reduce leverage. The financing agreements are on a short 1-3 month term and it is the expectation of the Company that this financing is rolled and therefore there is no need to manage liquidity for the financing agreements.

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

As at 31 March 2024:	Less than 1 month GBP	1-3 months GBP	3 months to 1 year GBP	Greater than 1 year GBP
<b>Financial liabilities excluding derivatives</b>				
Financing agreements	–	22,432,630	1,357,162	–
Cash collateral due to broker	–	14,400	–	–
Other liabilities	–	1,978,088	–	–
	<b>–</b>	<b>24,425,118</b>	<b>1,357,162</b>	<b>–</b>
<b>As at 31 March 2023:</b>				
<b>Financial liabilities excluding derivatives</b>				
Financing agreements	26,808,659	41,899,322	11,733,176	–
Other liabilities	–	1,583,614	–	–
	<b>26,808,659</b>	<b>43,482,936</b>	<b>11,733,176</b>	<b>–</b>

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 financial assets and liabilities measured in the Statement of Financial Position. The determination of the fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 2, Material accounting policies and in Note 3, Critical accounting judgements and key sources of estimation uncertainty. For financial instruments that trade infrequently and have little price transparency, fair value is less objective.

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

**Level 1** – Quoted market prices in an active market for an identical instrument;

**Level 2** – Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data; 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 2024:	Level 1 GBP	Level 2 GBP	Level 3 GBP	Total GBP
<b>Non-current assets</b>				
Real Estate Credit Investments – market bond portfolio	–	100,405	7,793,554	7,893,959
Real Estate Credit Investments – bilateral loan and bond portfolio	–	–	305,036,801	305,036,801
Real Estate Credit Investments – equity securities	–	–	16,438,039	16,438,039
Total non-current assets	–	100,405	329,268,394	329,368,799
<b>Current liabilities</b>				
Real Estate Credit Investments – repurchase agreements	–	(23,789,792) <sup>1</sup>	–	(23,789,792)
Forward foreign exchange contracts	–	(87,967)	–	(87,967)
Total current liabilities	–	(23,877,759)	–	(23,877,759)
	–	<b>(23,777,354)</b>	<b>329,268,394</b>	<b>305,491,040</b>

<sup>1</sup> Includes repurchase agreements related to Level 3 investments.

As at 31 March 2023:	Level 1 GBP	Level 2 GBP	Level 3 GBP	Total GBP
<b>Current assets</b>				
Forward foreign exchange contracts	–	1,756,118	–	1,756,118
<b>Non-current assets</b>				
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	–	–	341,474,617	341,474,617
Real Estate Credit Investments – equity securities	–	–	10,024,106	10,024,106
Total non-current assets	–	29,763,268	370,978,642	400,741,910
<b>Current liabilities</b>				
Real Estate Credit Investments – repurchase agreements	–	(80,441,157) <sup>1</sup>	–	(80,441,157)
	–	<b>(48,921,771)</b>	<b>370,978,642</b>	<b>322,056,871</b>

<sup>1</sup> 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.

## Notes to the Financial Statements (continued)

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 value 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 makes loans into structures to gain exposure to real estate secured debt primarily 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 2023: 6.2% to 13.2%) (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.

RECI may invest in equity securities which are not quoted in an active market and which may be subject to restrictions on redemptions such as lock up periods, redemption gates and side pockets. Transactions in the shares of the funds occur on a regular basis. Equity securities are valued using discounted cash flow.

In determining the level, RECI considers the length of time until the investment is redeemable, including notice and lock-up periods or any other restriction on the disposition of the investment. If RECI has the ability to redeem its investment at the reported net asset valuation as of the measurement date, the investment is generally categorised in Level 2 of the fair value hierarchy. If RECI does not know when it will have the ability to redeem the investment or it does not have the ability to redeem its investment in the near term, the investment is categorised in Level 3 of the fair value hierarchy. Equity securities are categorised in Level 3 of the fair value hierarchy.

The following tables set out information about significant unobservable inputs used as at 31 March 2024 and 31 March 2023 in measuring financial assets categorised as Level 3:

As at 31 March 2024	Fair value GBP	Valuation technique	Unobservable input
Market bond portfolio	7,793,554	Priced via external pricing source	Comparable set used
Bilateral loan and bond portfolio	305,036,801	Discounted cash flow	Risk-adjusted discount rate and sector based yields
Equity securities	16,438,039	Discounted cash flow	Risk-adjusted discount rate and sector based yields
As at 31 March 2023	Fair value GBP	Valuation technique	Unobservable input
Market bond portfolio	19,479,919	Priced via external pricing source	Comparable set used
Bilateral loan and bond portfolio	341,474,617	Discounted cash flow	Risk-adjusted discount rate and sector based yields
Equity securities	10,024,106	Discounted cash flow	Risk-adjusted discount rate and sector based yields

Although management believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Changes in unobservable inputs, such as discount rates used in loans and bonds valuation and sector-based yields used in collateral valuation can have a negative or positive impact on fair value. Sensitivities around the discount rates are discussed in detail in the interest rate risk note while sensitivity around expected future cash flows including collateral valuation is explained below. Sensitivities range from 15% to 20% for external valuations dated prior to the end of 30 September 2023. The higher percentage of 20% is applicable to office assets, which have been historically demonstrated and are expected to continue to be more sensitive (+5%) compared to other asset classes. For valuations after 30 September 2023, the sensitivities are set from 5% to 10% with the higher percentage of 10% being assigned to the office sector (2023: 5% or 15% with 15% used if the valuation is dated before November 2022). This represents management's assessment of a reasonable possible change and would have a negative or positive effect on the fair value measurements for the Level 3 assets of £7,212,730 (2023: £904,339).

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., and RELF 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 2024, 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 86 for the effects of movement in market rates.

#### 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 2024 GBP	Level 3 31 Mar 2023 GBP
<b>Financial assets at fair value through profit or loss</b>		
Opening balance	370,978,642	295,890,549
Total (losses)/gains recognised in the Statement of Comprehensive Income for the year	(6,381,030)	10,170,687
Purchases	95,164,446	167,591,125
Sales	(125,398,359)	(118,994,111)
(Decrease)/increase in interest receivable	(5,095,305)	2,619,692
Transfer into Level 3	–	13,700,700
<b>Closing balance</b>	<b>329,268,394</b>	<b>370,978,642</b>
<b>Unrealised (losses)/gains on investments classified as Level 3 at year end</b>	<b>(3,267,385)</b>	<b>3,840,715</b>

#### (e) Prepayment and Re-Investment Risks

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

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

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

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

## Notes to the Financial Statements (continued)

### 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; (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"); and (iii) equity securities. 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 three reportable segments, being the Market Bond Portfolio, Bilateral Loan and Bond Portfolio and Equity Securities.

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, Bilateral Loan and Bond Portfolio and Equity Securities separately; thus three 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 2024:	Market Bond Portfolio GBP	Bilateral Loan and Bond Portfolio GBP	Equity Securities GBP	Total GBP
Interest income	1,482,514	28,412,548	–	29,895,062
Net gains/(losses) on financial assets and liabilities at fair value through profit or loss	1,807,597	(2,512,410)	(5,275,758)	(5,980,571)
<b>Reportable segment profit/(loss)</b>	<b>3,290,111</b>	<b>25,900,138</b>	<b>(5,275,758)</b>	<b>23,914,491</b>
<b>Finance costs</b>	<b>(988,855)</b>	<b>(2,525,223)</b>	<b>–</b>	<b>(3,514,078)</b>

Year ended 31 March 2023:	Market Bond Portfolio GBP	Bilateral Loan and Bond Portfolio GBP	Equity Securities GBP	Total GBP
Interest income	4,960,473	26,747,271	–	31,707,744
Net (losses)/gains on financial assets and liabilities at fair value through profit or loss	(8,155,580)	10,101,376	2,520,545	4,466,341
<b>Reportable segment (loss)/profit</b>	<b>(3,195,107)</b>	<b>36,848,647</b>	<b>2,520,545</b>	<b>36,174,085</b>
<b>Finance costs</b>	<b>(1,783,805)</b>	<b>(2,188,548)</b>	<b>–</b>	<b>(3,972,353)</b>

Year ended 31 March 2024:	Market Bond Portfolio GBP	Bilateral Loan and Bond Portfolio GBP	Equity Securities GBP	Total GBP
Reportable segment assets	7,893,959	305,036,801	16,438,039	329,368,799
Non-segmental assets				22,883,137
Financing agreements	(4,732,841)	(19,056,951)	–	(23,789,792)
Non-segmental liabilities				(2,080,455)
<b>Net assets</b>				<b>326,381,689</b>

Year ended 31 March 2023:	Market Bond Portfolio GBP	Bilateral Loan and Bond Portfolio GBP	Equity Securities GBP	Total GBP
Reportable segment assets	49,243,187	341,474,617	10,024,106	400,741,910
Non-segmental assets				18,248,768
Financing agreements	(36,015,630)	(44,425,527)	–	(80,441,157)
Non-segmental liabilities				(1,583,614)
<b>Net assets</b>				<b>336,965,907</b>

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 reportable segment profit and net profit.

	31 Mar 2024 GBP	31 Mar 2023 GBP
Reportable segment profit	23,914,491	36,174,085
Net gains/(losses) on foreign exchange instruments	6,615,359	(3,659,633)
Interest income on financial assets at amortised cost	446,117	214,799
Net foreign currency gains/(losses)	259,847	(2,070,857)
Other income	123,121	7,940
	31,358,935	30,666,334
Operating expenses	(5,989,327)	(6,143,662)
Finance costs	(3,514,078)	(3,972,353)
<b>Net profit</b>	<b>21,855,530</b>	<b>20,550,319</b>

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 reportable segment assets and total assets.

	31 Mar 2024 GBP	31 Mar 2023 GBP
Reportable segment assets	329,368,799	400,741,910
Cash and cash equivalents	18,289,567	14,081,343
Cash collateral at broker	4,489,272	2,383,962
Derivative financial assets	–	1,756,118
Other assets	104,298	27,345
<b>Total assets</b>	<b>352,251,936</b>	<b>418,990,678</b>

## Notes to the Financial Statements (continued)

The following is a summary of the movements in the Company's investments analysed by the Loan and Bond Portfolios and Equity Securities for the year ended 31 March 2024:

Year ended 31 March 2024:	Market Bond Portfolio GBP	Bilateral Loan and Bond Portfolio GBP	Equity Securities GBP	Total GBP
<b>Financial assets at fair value through profit or loss</b>				
Opening fair value	49,243,187	341,474,617	10,024,106	400,741,910
Transfer	–	(11,650,667)	11,650,667	–
Purchases	–	94,866,164	298,282	95,164,446
Repayments/sales proceeds	(42,942,292)	(112,045,599)	(259,257)	(155,247,148)
Decrease in interest receivable	(214,533)	(5,095,305)	–	(5,309,838)
Realised (losses)/gains on sales	(4,232,205)	1,337,147	(485)	(2,895,543)
Net movement in unrealised gains/(losses)	6,039,802	(3,849,556)	(5,275,274)	(3,085,028)
<b>Closing fair value</b>	<b>7,893,959</b>	<b>305,036,801</b>	<b>16,438,039</b>	<b>329,368,799</b>

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

Year ended 31 March 2023:	Market Bond Portfolio GBP	Bilateral Loan and Bond Portfolio GBP	Equity Securities GBP	Total GBP
<b>Financial assets at fair value through profit or loss</b>				
Opening fair value	98,450,555	288,968,898	6,921,651	394,341,104
Purchases	–	157,387,510	1,256,961	158,644,471
Repayments/sales proceeds	(40,697,172)	(117,602,858)	(675,051)	(158,975,081)
(Decrease)/increase in interest receivable	(354,617)	2,619,692	–	2,265,075
Realised (losses)/gains on sales	(4,547,798)	(5,491,225)	82,453	(9,956,570)
Net movement in unrealised (losses)/gains	(3,607,781)	15,592,600	2,438,092	14,422,911
<b>Closing fair value</b>	<b>49,243,187</b>	<b>341,474,617</b>	<b>10,024,106</b>	<b>400,741,910</b>

### 17. Cash Collateral

The Company manages some of its financial risks through the use of financial derivative instruments and repurchase agreements which are subject to collateral requirements. As at 31 March 2024, a total of £4.5 million (31 March 2023: £2.4 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 in the Statement of Financial Position.

### 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., and RELF 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 2024, the Management Fee totalled £4.2 million (31 March 2023: £4.3 million), of which £0.3 million (31 March 2023: £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  $((A-B) \times 20\% \times C)$  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 years ended 31 March 2024 and 31 March 2023, 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 of £10,000.

During the year ended 31 March 2024, the administration fee totalled £278,720 (31 March 2023: £276,595), of which £37,548 (31 March 2023: £41,939) 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 2023: 0.02%) of the NAV of the Company. During the year ended 31 March 2024, the Depositary fee totalled £64,126 (31 March 2023: £65,137). The Company owed £66,708 (31 March 2023: £33,090) to the Depositary at the year end date.

## 19. Contingencies and Commitments

As at 31 March 2024, the Company had committed £489.0 million into bilateral loans and bonds of which £352.1 million had been funded (31 March 2023: £572.0 million into bilateral loans and bonds of which £367.8 million had been funded).

During the financial year ended 31 March 2024, 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 2024 was £3.9 million (31 March 2023: £2.9 million). This represents a financial guarantee, and the Company recognises that there's no need for provision on assets at reporting date.

## Notes to the Financial Statements (continued)

### 20. Subsequent Events

The Directors declared a dividend of 3 pence per share on 19 June 2024.

Since 1 April 2024, RECI received a total of £16.7 million from two loans that have repaid.

Since 1 April 2024, RECI has committed to invest in 1 new deal, totalling £18.5 million.

Since 1 April 2024, RECI has bought back 1.8 million amount of shares.

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 2024 GBP	31 Mar 2023 GBP
EUR	1.17	1.14
USD	1.26	1.24

### 22. Approval of the Financial Statements

The Annual Report and audited financial statements of the Company were approved by the Directors on 19 June 2024.

## Appendix I – AIFM Remuneration Policy (Unaudited)

### Annual Remuneration Disclosure for the Year to 31 March 2024

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 2024, 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	£23,565,283	6	£1,013,727	£223,385
Senior Management	7	£19,528,002	7	£876,284	£243,989
<b>Total</b>	<b>36</b>	<b>£43,093,285</b>	<b>13</b>	<b>£1,890,011</b>	<b>£467,374</b>

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 buybacks 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 2024, the maximum leverage calculated has been 146.87% for the Gross Approach and 107.90% for the Commitment Approach. In the year ended 31 March 2023, the maximum leverage calculated has been 166.91% for the Gross Approach and 123.99% for the Commitment Approach.

# Directors and Advisers

## Directors

Bob Cowdell (Chairman)  
Susie Farnon  
John Hallam  
Colleen McHugh  
Andreas Tautscher (appointed 07 May 2024)

## Secretary of the Company

Aztec Financial Services (Guernsey) Limited  
PO Box 656  
East Wing  
Trafalgar Court  
Les Banques, St. Peter Port  
Guernsey, GY1 3PP

## Corporate Broker

Liberum Capital Limited  
Ropemaker Place, Level 12  
25 Ropemaker Street  
London, EC2Y 9LY

## Registrar

Link Market Services (Guernsey) Limited  
Mount Crevelt House  
Bulwer Avenue  
St. Sampson  
Guernsey, GY2 4LH

## Depositary

The Bank of New York Mellon (International) Limited  
One Canada Square  
London, E14 5AL

## Registered Office

East Wing  
Trafalgar Court  
Les Banques, St. Peter Port  
Guernsey, GY1 3PP

## Alternative Investment Fund Manager

Cheyne Capital Management (UK) LLP  
Stornoway House  
13 Cleveland Row  
London, SW1A 1DH

## Independent Auditor

Deloitte LLP  
Regency Court  
Glatigny Esplanade  
St. Peter Port  
Guernsey, GY1 3HW

## UK Transfer Agent

Link Group Limited  
Central Square  
29 Wellington Street  
Leeds, LS1 4DL

## Administrator

Citco Fund Services (Guernsey) Limited  
PO Box 273  
Frances House  
Sir William Place  
St. Peter Port  
Guernsey, GY1 3RD

## Sub-Administrator

Citco Fund Services (Ireland) Limited  
Custom House Plaza, Block 6  
International Financial Services Centre  
Ireland, Dublin 1

## Glossary

### Asset Strategy definitions

<b>Core</b>	Assets that benefit from having long-term income.
<b>Core +</b>	Assets that benefit from having strong current income, but do require some measure of asset management to optimise their income profile and term.
<b>Development De-Risked</b>	Development assets which benefit from being substantially pre-sold or pre-let.
<b>Development Fit-Out</b>	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.
<b>Development Groundworks/Superstructure</b>	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.
<b>Real Estate Op-Co/Prop-Co Loan</b>	Loan secured by both the operating company as well as all of the Company's real assets.
<b>Value add/transitional</b>	Assets that require asset management (typically refurbishment) and re-letting to secure a core income profile.

### Alternative Performance Measures

<b>Dividend Yield</b>	The total dividends paid in the reporting period (per share) divided by the quoted price of each share as at the relevant reporting date.
<b>Market Capitalisation</b>	The number of shares in issuance at the relevant reporting date multiplied by the share price at the relevant reporting date.
<b>NAV per share</b>	The net asset value of the Company divided by the number of shares in issuance at the relevant reporting date.
<b>Share Price Premium/Discount</b>	The percentage difference between the NAV per share and the quoted price of each share as at the relevant reporting date.
<b>Total NAV Return</b>	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.

## Notes

## Notes





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**Real Estate Credit Investments Limited**

East Wing  
Trafalgar Court  
Les Banques  
St. Peter Port  
Guernsey  
GY1 3PP

[www.realestatecreditinvestments.com](http://www.realestatecreditinvestments.com)