

**SEQUOIA  
ECONOMIC  
INFRASTRUCTURE**  
INCOME FUND LIMITED



Diversified  
Sustainable  
Income



Annual Report and Accounts  
**2021**

# Our purpose

Our purpose is to generate attractive and sustainable returns for a wide range of investors through responsible and disciplined investment into a growing portfolio of diverse economic infrastructure debt. These assets would otherwise be difficult for investors to access, given the specialist nature of the origination and credit assessment skills needed.

Our investments support the provision of infrastructure on a sustainable basis and create social and economic benefits across the range of geographies in which we invest.



Find out more at [www.seqifund.com](http://www.seqifund.com)

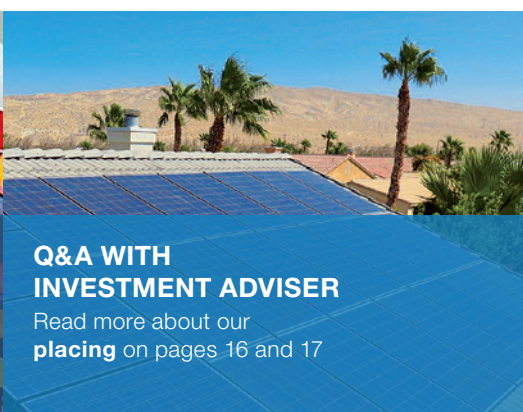


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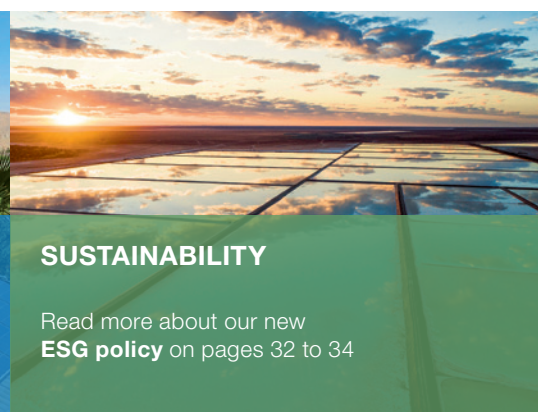
## MARKET OPPORTUNITY

Read more about our **diversification** on pages 12 and 13



## Q&A WITH INVESTMENT ADVISER

Read more about our **placing** on pages 16 and 17



## SUSTAINABILITY

Read more about our new **ESG policy** on pages 32 to 34

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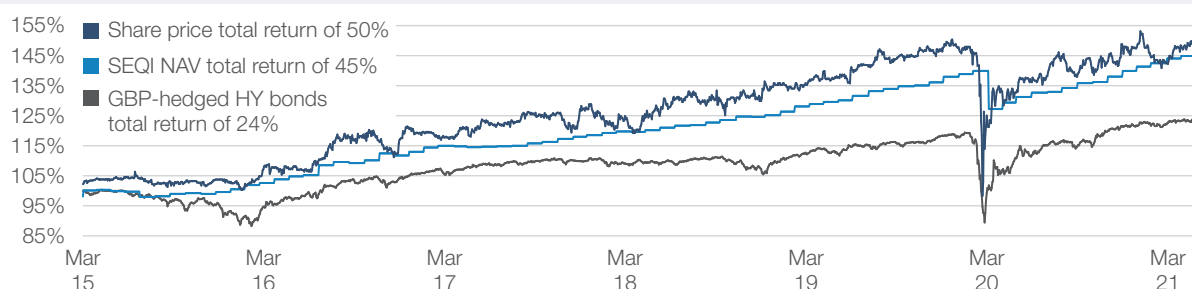
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## TOTAL RETURN SINCE THE INCEPTION OF THE COMPANY TO 29 MAY 2021



# At a glance

Diversified infrastructure fund with 62 private debt investments and 10 bonds across 8 sectors, 31 sub-sectors and 12 mature jurisdictions.

## ABOUT SEQUOIA ECONOMIC INFRASTRUCTURE INCOME FUND LIMITED

The Company seeks to provide investors with regular, sustained, long-term distributions and capital appreciation from a diversified portfolio of senior and subordinated economic infrastructure debt investments. The Company is advised by Sequoia Investment Management Company Limited.

72

Investments

£23.8m

Average investment

£65.0m

Largest investment

9.0%

Portfolio yield-to-maturity

### TMT

Telecommunications, Media and Technology infrastructure including mobile phone towers, broadband fixed line networks, undersea cables, data centres and satellites

15.5%

of portfolio

### TRANSPORT

Transportation infrastructure including roads, rail, airports and ports

14.8%

of portfolio

### POWER

Electricity generation from conventional sources

13.5%

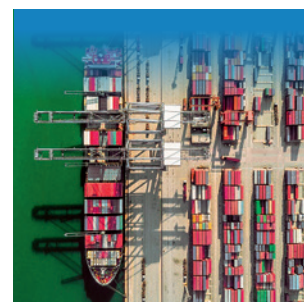
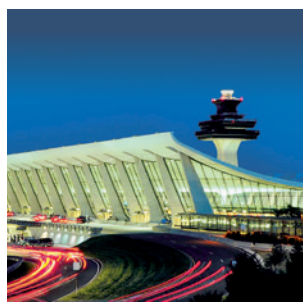
of portfolio

### TRANSPORT ASSETS

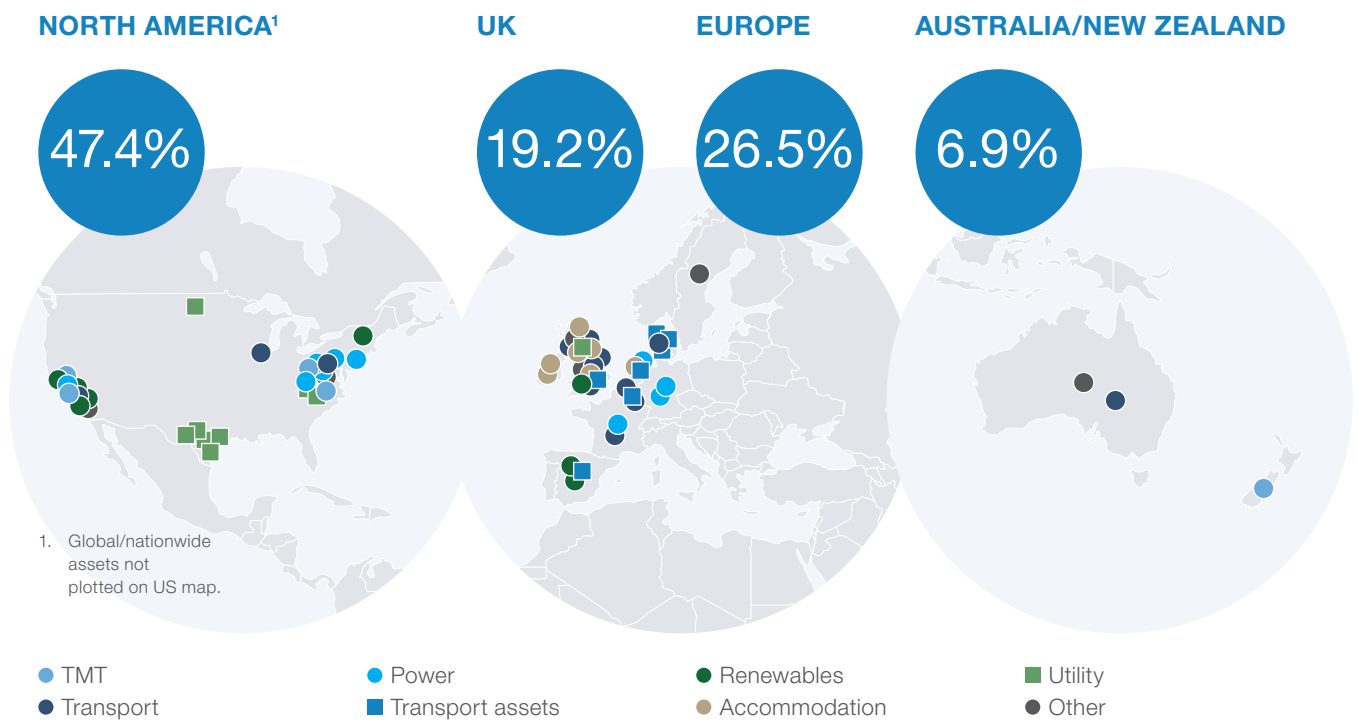
Transportation equipment including rolling stock, shipping and aircraft

13.2%

of portfolio





**RENEWABLES**

Renewable energy including solar, wind, geothermal and biomass

12.1%

of portfolio

**ACCOMMODATION**

Infrastructure accommodation including student housing, healthcare and elderly care facilities

10.8%

of portfolio

**UTILITY**

Utilities including water and waste, electricity distribution and transmission, electricity supply, gas distribution and transmission, pipelines and waste-to-energy projects

9.2%

of portfolio

**OTHER**

Other sectors that exhibit infrastructure characteristics such as high barriers to entry, stable cash flows or strong backing by real assets

10.9%

of portfolio



# Objective and policies

## PRINCIPAL ACTIVITY

**Sequoia Economic Infrastructure Income Fund Limited (the “Company”) invests in a diversified portfolio of senior and subordinated economic infrastructure debt investments through its immediate subsidiary Sequoia IDF Asset Holdings S.A. (the “Subsidiary”, together the “Fund”). The Company controls the Subsidiary through a holding of 100% of its shares.**



## INVESTMENT OBJECTIVE

The Company's investment objective is to provide investors with regular, sustained, long-term distributions and capital appreciation from a diversified portfolio of senior and subordinated economic infrastructure debt investments. This objective is subject to the Fund having a sufficient level of investment capital from time to time and the ability of the Fund to invest its cash in suitable investments.



## INVESTMENT POLICY

The Company's principal investment policy is to invest in a portfolio of loans, notes and bonds where all or substantially all of the associated underlying revenues are from business activities in the following market sectors: transport, transportation equipment, utilities, power, renewable energy, accommodation and telecommunications infrastructure. The revenues derive from certain eligible jurisdictions, as defined in the Company's Prospectus. In addition, in excess of 50% of the portfolio should be floating rate or inflation-linked debt, and not more than 10% by value of the Fund's investments (at the time of investment) should relate to any one individual infrastructure asset.



## ESG POLICY

The Company takes its corporate and social responsibilities seriously. As part of its sustainability strategy, the Company has established a number of appropriate ESG policies which it takes into account at all stages of its investment process. The guiding principles behind its ESG programme are the United Nations Principles for Responsible Investment (“UNPRI”), to which the Investment Adviser is a signatory.

**Read more on pages 32 to 34**



## DIVIDEND POLICY

In the absence of any significant restricting factors, the Board expects to pay dividends totalling 6.25p per Ordinary Share per annum (increased from 6p per Ordinary Share with effect from the quarter ended 30 June 2019) for the foreseeable future. The Company pays dividends on a quarterly basis.

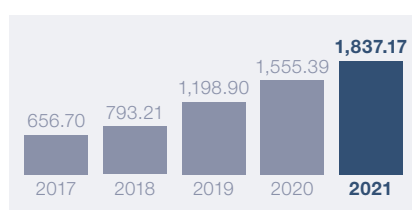
At an Extraordinary General Meeting of the Company held on 25 February 2020, Shareholders approved the implementation of a scrip dividend scheme. For further details, please see note 4 to the Financial Statements.

# KPIs

The set of measures below are considered to be the Company's key performance indicators.

## MARKET CAPITALISATION

£M

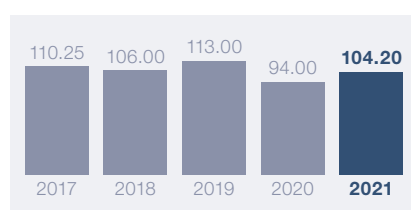


### Description:

12-fold increase since IPO driven by several over-subscribed capital raises and stable share price

## SHARE PRICE

P

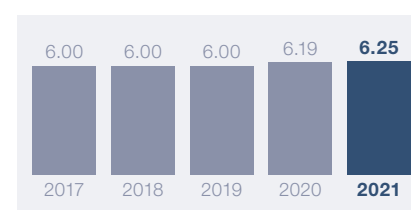


### Description:

The Company's Ordinary Shares have consistently traded at a premium since launch, apart from the March 2020 market related volatility

## ANNUAL DIVIDEND PER ORDINARY SHARE

P

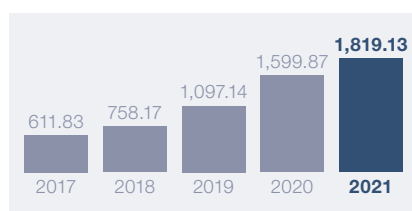


### Description:

Dividend reaffirmed at 6.25p per annum for financial year 2021/22

## NAV

£M

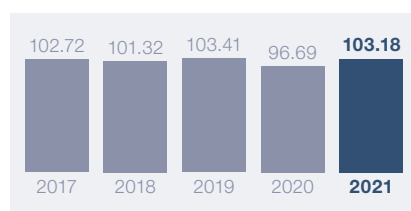


### Description:

Capital raised has been successfully deployed into the portfolio, providing economies of scale and reducing ongoing charges ratio

## NAV PER ORDINARY SHARE

P

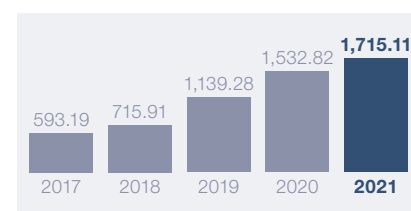


### Description:

Consistent NAV per share performance following strong recovery from COVID-19 related low in March 2020

## PORTFOLIO VALUE

£M



### Description:

Portfolio value increase driven by capital raises and strong portfolio management



# Highlights

Continued portfolio growth and performance – increased dividend target

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## FINANCIAL HIGHLIGHTS

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£1,819,130,381

Total net assets  
(31 March 2020: £1,599,865,271)



14%

103.18p

Net asset value ("NAV") per Ordinary Share<sup>1</sup>  
(31 March 2020: 96.69p)



7%

104.20p

Ordinary Share price<sup>1</sup>  
(31 March 2020: 94.00p)



11%

1.0%

Ordinary Share premium/(discount) to NAV<sup>1</sup>  
(31 March 2020: (2.8)%)



136%

6.25p

Dividend total per Ordinary Share paid during the year  
(31 March 2020: 6.1875p)



1%

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1. Cum dividend.

## HIGHLIGHTS FOR THE YEAR ENDED 31 MARCH 2021

- NAV total return of 13.5% in the year<sup>1</sup>
- Diversified portfolio of 72 investments across 8 sectors, 31 sub-sectors and 12 mature jurisdictions
  - 93% of investments in private debt
  - 57% floating rate investments, capturing short-term rate rises
  - Short weighted average life of 4.5 years creating reinvestment opportunities
  - Weighted average equity cushion of 35%
- Capital raise of £110 million completed during the year
- ESG score of the portfolio is on a long-term and sustainable upward trend
- Share price total return of 17.4% in the year<sup>1</sup>
- Annualised portfolio yield-to-maturity<sup>1</sup> of 9.0% as at 31 March 2021
- Ongoing charges ratio of 0.87%, down from 0.96% in the prior year (calculated in accordance with AIC guidance)<sup>1</sup>
- Dividends totalling 6.25p per Ordinary Share paid during the year, in line with increased annual target dividend announced in May 2019



SEI has demonstrated the considerable resilience of its portfolio and the wider infrastructure asset class throughout the COVID-19 related challenges of the past year. In an environment of necessarily accommodative fiscal and monetary policies, our in-year return performance was well in excess of our long-term targets.

As economic conditions continue to improve, we are well placed to invest selectively in our extensive pipeline of potential infrastructure loans, which have attractive yields, appropriate credit quality and build on our continued progress with our overall ESG score. We believe that the Company continues to be well placed to deliver attractive risk-adjusted returns in a sustainable manner over the long term.

**ROBERT JENNINGS**  
Chair

1. See appendix for Alternative Performance Measures ("APMs").

# Chair's statement



Well placed to deliver attractive risk-adjusted returns and to take advantage of substantial long-term investment opportunities.

**ROBERT JENNINGS**

Chair

Dear Shareholder,

It is my pleasure to present to you the Annual Report and Audited Financial Statements of the Company for the financial year of operations ended 31 March 2021. I would like to welcome all new Shareholders on our register, including those who supported our capital raise in March 2021.

## NAV AND SHARE PRICE PERFORMANCE

Over the financial year, the Company's NAV per Ordinary Share<sup>1</sup> increased from 96.69p to 103.18p, after paying dividends of 6.25p, producing a total NAV return<sup>1</sup> of 13.5%, materially in excess of the Company's target return. In large part, this strong performance was the result of credit spreads returning to normalised levels following the sharp deterioration in the financial markets at the end of the previous financial year.

The Company's share price also increased over the year, from 94.0p to 104.2p, a gain of 10.9% and a total share price return<sup>1</sup> of 17.4% once dividends are taken into account. This reflects both the underlying NAV performance and the recovery in the Company's premium, which improved from a discount<sup>1</sup> of 2.8% at the beginning of the year, to a premium<sup>1</sup> of 1.0% at the end of the year.

## DIVIDEND

Pleasingly, despite all the disruption caused by COVID-19, we achieved our target of paying a fully cash-covered dividend of 6.25p per Ordinary Share. We are maintaining the dividend target for the 2021/22 financial year and believe that this will provide scope for our cash cover ratio to strengthen somewhat over the course of the year.

## PORTFOLIO PERFORMANCE

The last financial year was challenging for many parts of the economy, including some infrastructure sectors such as transport, aviation, student accommodation and electricity generation. However, overall the Company's portfolio has performed robustly over this period. Some sectors, such as telecoms infrastructure, have actually had a strong year, as they have benefited from the various COVID-19 lockdowns around the world; other assets, in sectors that are more exposed to COVID-19, have by and large been robust enough to "weather the storm". In fact, we have had remarkably few borrowers who have shown material levels of financial distress. This speaks to the resilience of infrastructure as an asset class.

Sequoia Investment Management Company Limited (the "Investment Adviser") in its report discusses some specific transactions in more detail.

But in summary, most of the transactions which required closer monitoring this time last year have materially improved in credit quality since then. Only one transaction, a loan in the mid-stream sector in the US, needed to be comprehensively restructured: in return for a reduction in debt, that borrower granted the Company an equity stake in its business. Although this equity stake is illiquid and difficult to value, the significant increase in oil and gas prices since the restructuring has without doubt led to an increase in its value.

We estimate that as at the end of the financial year, the restructuring has resulted in an unrealised loss to the Company of 1.14p per Ordinary Share. However, this loss may decrease in the future, potentially to nil or better, if the price of oil and gas remains elevated and the value of our equity stake in the business continues to increase.

Partially offsetting this, the Company made a substantial realised gain of approximately 1.36p per Ordinary Share, following the repayment at par of a loan (backed by a German toll road) that it had previously bought in the secondary markets at a weighted average price of 57.1% of par. In addition, the Company collected significant fee revenues of circa £7.3 million over the course of the year, which also helped to support the NAV performance.

1. See appendix for Alternative Performance Measures ("APMs").





During the financial year, the Investment Adviser has had a highly selective approach to new investments. This was in part the consequence of a high level of monitoring and credit management of the portfolio over a turbulent year, but also reflected prudence in light of uncertainty about the speed of the economic recovery. In general, we have prioritised investments in lower-risk parts of the infrastructure market, which typically have only a moderate or low correlation to the economic cycle, such as, for example, businesses with a high degree of contractual income.

## CURRENT STATE OF THE MARKETS

Overall, the infrastructure debt markets are in a much healthier position than they were 12 months ago. Credit quality is improving as economies have emerged from lockdown and uncertainties in different parts of the market have abated.

In particular, we are seeing excellent opportunities in several parts of the market. The first of these is the infrastructure required for the transition to a lower carbon world, such as renewable energy and related projects, electric vehicles, battery storage, and various mass transport projects. Secondly, infrastructure in the telecoms sector remains attractively priced, including assets such as mobile phone towers, data centres and broadband.

We have been able to find attractive opportunities to lend in these sectors where traditional bank lenders are unable to provide the required capital. Thirdly, infrastructure projects still find it difficult to source mezzanine or subordinated debt from lenders, and the shortage of this type of capital provides the Company with attractive lending opportunities across a wide range of sectors.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”)

This year has seen continued progress on the development of the Company's approach to ESG. In February 2021, we published a comprehensive, updated ESG policy, which describes in detail our approach to asset selection and portfolio construction, as well as broader themes such as how we can engage with our borrowers on ESG-related matters. We have also started reporting under Article 8 of the new EU SFDR directive.

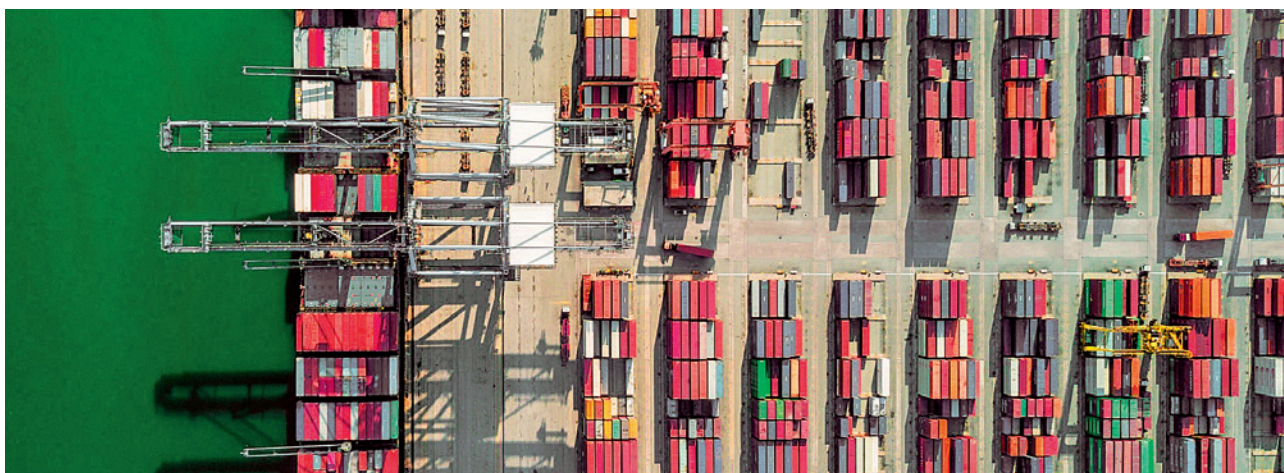
We have, over the course of the year, refined our ESG scoring methodology to make it more objective and robust and, as a pioneer among FTSE-listed entities, have this year engaged external consultants to provide independent limited assurance of our portfolio's overall ESG score. We believe we are leading the way in raising standards of rigour in the quantification of ESG credentials.

Overall, the portfolio has shown progression with a significant number of the lowest-scoring loans being sold or allowed to roll off naturally at their maturity, and new investments typically scoring higher than the ones they replace. We expect this trend to continue, and we believe that the scoring framework we have will allow us to continue to allocate more capital towards sectors and borrowers who are able to demonstrate excellent environmental, social or governance characteristics. In the current year, our last and lowest-scoring non-compliant legacy loan has recently been repaid in full.

Towards the end of the year, the Board wrote to all the key service providers to the Company and requested information from each of them about their management of their carbon footprints. This is intended as the start of a continuing dialogue with our service providers and we have made it clear that this will become an important consideration in the award of contracts in the future. We were greatly encouraged to discover that a number of our major counterparties have already set up impressive programmes to monitor and reduce their carbon intensity.

Overall, I believe the steps we have implemented put us at the forefront of ESG thinking in the listed debt fund sector.

# Chair's statement continued



## BOARD SUCCESSION PLANS

On 29 June 2021, we announced our intention to appoint Sarika Patel as a member of the Board, to take effect following the conclusion of our Annual General Meeting ("AGM") on 4 August 2021. Profiles of Sarika and of the rest of the Board and our consultants, Tim Drayson and Kate Thurman, are presented on pages 46 to 48.

The Company's Board has now been in place for about six and a half years, and for some time we have been mindful of the need to progress our succession planning and to increase the size of the Board, reflecting the 12-fold growth in the value of our portfolio since our IPO.

We launched our formal succession search in February of this year and were delighted by the quality and diversity of applicants who expressed interest.

At this stage we believe it is appropriate to appoint one new Director to our Board, but we expect to make further appointments of other talented new Directors in due course. Following Sarika's appointment, our Board will consist of five Directors, and it is anticipated that two of the original four Directors will retire from the Board in 2022, each after seven years of service.

In my previous Chair's statements I have consistently noted how well our team of key service providers and our Board and consultants have worked and grown together over the years. In order to ensure a sensible degree of continuity, we have taken the view that in our approach to succession we should allow a period of time for new Directors to familiarise themselves fully with our situation, governance and culture before retiring Directors step down, and accordingly, we will operate with a larger Board during the transition period than has been the case historically. Going forward thereafter, given the growth of our portfolio since launch, we consider that a five to six person Board is both a more appropriate size and offers greater scope to promote diversity.

## OUTLOOK

The Investment Adviser has assembled a strong pipeline of potential infrastructure loans, which have attractive yields and good credit quality, and will also further diversify the portfolio and increase its ESG score. Importantly, we continue to have a highly selective approach to investment, with the vast majority of potential loans being rejected.

Whilst a benign economic environment cannot be taken for granted, the signs currently are that each of the jurisdictions in which we are invested are going to experience strong economic growth over the coming year. This should be positive for the credit quality of the portfolio. A moderate level of inflation is also, in general, positive since in most cases our borrowers have revenues that directly or indirectly link to inflation, and therefore moderate inflation helps them to de-lever.

We are mindful of the risks of increasing interest rates from the current abnormally low levels. Although we would not welcome inflation rising significantly or becoming persistent, in general, an increase in short-term interest rates (i.e. policy rates) is positive for the portfolio, given the high level of floating rate debt held. In contrast, an increase in longer-term interest rates is likely to have the effect of decreasing NAV in the short term, since the value of fixed-rate loans will decrease. But, in the medium term it too should be positive, since reinvestment opportunities will offer higher interest rates, and moreover prices of existing fixed-rate loans will pull to par as they get closer to maturity. We therefore believe overall the portfolio is well positioned for an increasing interest rate environment.



## CLOSING

I would like to close this year's statement by thanking my fellow Board members, the Investment Adviser, Investment Manager, our Broker, our independent consultants, and our other critical service providers, all of whom have adapted extremely well to an unprecedented period of disruption and challenge. As a result, we believe that the Company entered the new financial year well placed to deliver attractive risk-adjusted returns over the long term with a relatively low correlation to the broader financial markets.

## ROBERT JENNINGS

Chair

5 July 2021

## TIMELINE OF THE YEAR

### April 2020

- Conclusions reported from the comprehensive portfolio and balance sheet review undertaken in light of the exceptional market volatility and spread widening arising from the COVID-19 pandemic and oil price collapse.
- Redirection of origination resources to enhanced credit and portfolio monitoring.
- Assessment of cash yields and reaffirmation of dividend target for the financial year ended 31 March 2021.

### July 2020

- Initiation of scrip dividend scheme.

### November 2020

- Confirmation of dividend remaining fully cash covered, net of all expenses, based on an analysis undertaken by the Investment Adviser.

### February 2021

- Announcement of proposed placing of new Ordinary Shares, completing in March and raising £110 million to partially repay amounts outstanding on the Company's revolving credit facility ("RCF").

### March 2021

- Announcement of the Company's classification as an Article 8 fund under the EU Sustainable Finance Disclosure Regulation ("SFDR").
- Publication of Environmental, Social and Governance ("ESG") policy.

## POST-YEAR-END

### June 2021

- Announcement of appointment of Sarika Patel as a new non-executive Director.



# Market opportunity

## PRINCIPAL ACTIVITY

The Company's investment objective is to provide investors with regular, sustained, long-term distributions and capital appreciation from a diversified portfolio of senior and subordinated economic infrastructure debt investments. The Fund principally invests in private operational projects with a proven record and stable cash flows, spread across 8 sectors and 31 sub-sectors, reducing exposure to any one sector or business cycle. It aims to capture the illiquidity premium offered by private debt investments, with select exposure to liquid, publicly traded debt. The majority of the Company's portfolio consists of bilateral loans and club deals, for which the Investment Adviser negotiated favourable terms for the Company to optimise its risk-adjusted returns.

## SOME SECTORS WE INVEST IN

### UTILITIES

The utility industry includes companies that supply essential services such as the distribution and transmission of electricity, natural gas and water. Utilities serve as a public good and often have monopolistic characteristics, and, as a result, are typically highly regulated. Other examples would be pipelines in the midstream sector, which are essential to the transportation of commodities between the point of extraction and consumption. Utilities companies are normally defensive, as the businesses are capital intensive and enjoy very high barriers to entry, and their revenues are resilient over the economic cycle. Utility company revenues are also not normally directly linked to commodity prices.

### POWER

In the power sector, the Company mainly invests in base load and energy transition assets. Base load projects sell electricity all or most of the time and take on merchant risk (albeit subject to hedging or power purchase agreements ("PPAs")). Energy transition projects, such as "peaker plants", are only expected to be operating for a small part of the year, when electricity prices spike, but do receive substantial standby payments from grid operators – these are increasingly important as more renewable energy is deployed and standby capacity is needed to stabilise the grid. Energy transition projects therefore have an intrinsic ESG strength of facilitating higher levels of renewable energy.

Attractive energy assets are characterised by strong asset backing, a high percentage of contracted revenues and are based in highly developed energy markets that often procure capacity on a two or three-year forward-basis – enhancing revenue visibility. The Company generally looks to finance companies with low exposure to power prices ("merchant price risk") which can be achieved by borrowers hedging this risk through derivatives or multi-year PPAs. All projects are assessed based on their competitive positioning in the merit order curve and must be able to demonstrate solid operational performance.

## THE MARKET ENVIRONMENT DURING THE YEAR

Although the market environment was volatile at the start of the year, the Fund has operated in a relatively calm environment overall during the last year as economies started to recover and lockdowns continued to ease. Lending margins and bond spreads have tightened since the spread widening in corporate bond and loan markets in the first quarter of 2020 that was triggered by two extraordinary market forces: the COVID-19 pandemic and an oil supply glut resulting from tensions between the US, Russia and Saudi Arabia. During the beginning of the year, the Company took advantage of the COVID-19 market sell-off to enhance returns by topping up several of its existing secondary positions that were not materially affected by the pandemic but were trading at attractive prices due to spreads widening. This allowed the Company to capture gains as markets continued to recover.



## RENEWABLES

Over the course of the last decade, renewable energy has grown materially as governments and investors started to realise the need for sustainable energy sources. In 2020, countries worldwide continued to pursue decarbonisation plans, despite the onset of a global pandemic and an economic recession. The renewable growth trend is expected to continue going forward as more countries, including the US, join the Paris Climate Accord which aims to achieve the goal of net-zero carbon emissions by 2050.

The Company finances a wide range of renewable energy assets including both ground-mounted and rooftop solar, wind turbines, hydro-electricity, geothermal electricity and energy from waste projects. Typically, renewable energy projects benefit from long-term electricity purchase agreements and government support schemes such as ROCs in the UK and Investment Tax Credits ("ITC") in the US.



## ACCOMMODATION

In the accommodation sector, the Company mainly invests in specialist healthcare assets such as learning-disability care homes. Healthcare assets are fundamental to societies and have a non-discretionary demand profile as governments have a statutory duty to provide these services to their citizens. The industry is highly regulated, non-cyclical and has high barriers to entry. Most healthcare businesses derive their revenues from governments and municipalities. The Company also invests in selective student housing opportunities in countries where there are student housing shortages, such as the Netherlands. The Company is able to achieve attractive risk-adjusted returns in those jurisdictions.



## TECHNOLOGY, MEDIA AND TELECOMMUNICATIONS ("TMT")

The opportunities we are seeing across the digital sector stem from the exponential growth in demand for data. There are numerous well-documented trends as well as further advancements in technology which will continue to act as significant tailwinds to the sector. Good connectivity is essential in the world we live in and 2020 will go down as a year in which the world leapt forward in its digitalisation journey. The essentiality of core assets (fibre, towers and data centres) within digital networks has been accelerated due to the unfortunate circumstances brought about by the pandemic. Our investments in the sector have been chief benefactors of these positive dynamics as valuations have strongly appreciated across the space. However, whilst headline valuations may appear to be reaching high levels, we continue to see value from a bottom-up perspective, noting the wide diversity of opportunities within sub-sectors. The Company's experience in the sector includes hyperscale data centres with blue-chip tenants, global portfolios of mobile phone towers and an undersea data cable linking the US with Australia and New Zealand.



# Business model

## DRIVEN BY OUR PURPOSE

**Our purpose is to generate attractive and sustainable returns for a wide range of investors through responsible and disciplined investment into a growing portfolio of diverse economic infrastructure debt. These assets would otherwise be difficult for investors to access, given the specialist nature of the necessary credit rating and advisory skills needed.**

**Our investments support the provision of infrastructure on a sustainable basis and create social and economic benefits across the range of geographies in which we invest.**

## INVESTMENT PROCESS

### Step 1: Origination

- Identify market opportunities in sectors and jurisdictions with strong credit characteristics and attractive relative pricing
- Leverage relationships with lending banks and infrastructure owners

### Step 5: Acquisition and ongoing monitoring

- Investment Adviser executes the trade once the recommendation is approved
- Execution of appropriate currency hedge, as necessary
- All ongoing credit monitoring and updates, including the Investment Committee reviews, are sent to the AIFM
- Every asset is monitored semi-annually at a minimum, and more frequently when required
- Annually, the Board undertakes a full portfolio review, with a separate session dedicated to focus loans (determined by risk profile), in addition to quarterly Board reviews

### Step 4: Investment Committee review

- Full credit memorandum and valuation/yield analysis is provided to the Investment Committee for review
- A unanimous investment decision is required in order to make the recommendation to the Alternative Investment Fund Manager ("AIFM")
- The AIFM may invite the views of the Board and independent consultants before deciding whether to approve the transaction
- Investment Committee minutes and material credit documentation are submitted to the AIFM for detailed review

## RISK MANAGEMENT

### Credit review framework

Escalation criteria are in place requiring Risk Committee and Investment Consultant review of investments possessing certain characteristics. The AIFM has full discretion to approve or decline investments.

### Independent AIFM risk manager

Detailed review of all investment recommendations and material developments with borrowers.

### Risk Committee

Committee is comprised of independent non-executive Directors.

**Read more on page 52**



## SUSTAINABILITY

## FINANCIAL OUTCOMES

### Step 2: Initial screening

- Eliminate assets unlikely to pass investment approval
- Identify strong credits for inclusion in shortlist for full analysis

### Step 3: Detailed credit analysis

- Due diligence and credit processes
- Site visits and meetings with management, as appropriate
- Run proprietary analytical models, if applicable
- Determine risk characteristics and mitigants
- Ensure no diversification, concentration or other limits are broken

#### Financial

The Company's NAV performance and dividend cover can be found on pages 20 and 21.

#### Governance

Details of the Company's governance framework and the activities of the Board during the year can be found on pages 50 to 66.

#### Environmental and social

Details of the Company's sustainability strategy and the approach taken in applying its principles to its business activities are described in the sustainability section on pages 30 to 34.

## 6.25p

The Company has paid dividends of 6.25p per Ordinary Share for the financial year, in line with its target

## £1.72 billion

The Company's investment portfolio was valued at c.£1.72 billion at the year end

## 1.04x

The Company's cash dividend cover for the financial year was 1.04x

## 17.4%

Total share price return for the year was 17.4%

## ROBUST GOVERNANCE

#### Effective Board oversight

Details of Board composition, committee structures and the Company's internal controls and risk management systems are set out in the corporate governance report on pages 52 to 55.

#### Financial management

Details of the arrangements for ensuring the integrity of the Company's system of internal financial controls and financial reporting processes are set out in the report of the Audit Committee on pages 58 to 60.

# Q&A with Investment Adviser



Overall, our investments have performed very well. One of the attractions of infrastructure debt is that it is stable, and has a low correlation to the broader economy.

## STEVE COOK

Director and Head of Portfolio Management,  
Sequoia Investment Management Company Limited



## Q: COULD YOU EXPLAIN THE BROADER MARKET CONTEXT AND WHY YOU SEE INFRASTRUCTURE DEBT AS A STABLE ASSET CLASS?

**A:** Lending margins and bond spreads have tightened since the spread widening of the corporate bond and loan markets in the first quarter of 2020. This was triggered by two extraordinary market forces: the COVID-19 pandemic and an oil supply glut due to tensions between the US, Russia, and Saudi Arabia. The market has continued to recover overall during the last year as economic activities resumed and lockdowns continued to ease. Throughout the last eighteen months, the Company has experienced less volatility than other asset classes, as infrastructure debt proved to be a stable asset class that remained relatively resilient during periods of economic downturn.

The Company invests predominantly in private debt backed by economic infrastructure projects in mature, developed jurisdictions. These projects, in sectors such as Transportation, Utilities, Power, Telecommunications and Renewable Energy, often provide essential services and benefit from high barriers to entry and relatively stable cash flows.

They are often supported by physical assets, long-term concessions, and may operate within a regulated framework. These characteristics typically result in infrastructure projects enjoying relatively low volatility compared to the broader economy.

However, many economic infrastructure projects do have some “demand risk”, in that they earn their revenues from demand, usage, or volume. For example, a toll road’s revenues are generally dependent on traffic volumes. To mitigate the risk of fluctuating demand, economic infrastructure projects are typically less highly geared than other assets such as real estate or PFI/PPP social infrastructure projects, with more conservative credit ratios, stronger loan covenants, and a higher levels of asset backing for lenders.

This high level of equity in projects helps to protect lenders, by acting as a shock absorber. During the lockdown many of the projects that we finance had periods when revenues fell, sometimes materially, but overall in most cases the equity buffer absorbed these losses.

These characteristics of economic infrastructure – stable cash flows, high barriers-to-entry, physical assets, equity buffers and lower gearing – all form the bedrock upon which SEQI’s investment opportunities are based and analysed. This is not expected to change, regardless of what is going on in the markets, because these core features of economic infrastructure all contribute to strong fundamentals that are critical for weathering storms.

## Q: HOW IS ESG EMBEDDED WITHIN THE INVESTMENT PROCESS?

**A:** ESG is considered at every stage of the investment process. Every pipeline investment undergoes an initial negative and thematic (positive) screening. This allows us to drop non-ESG friendly assets investments very quickly and only pursue sustainable assets that will contribute to a greener future. Non-ESG friendly assets include military infrastructure, infrastructure related to the exploration and production of oil and gas, infrastructure related to mining thermal coal, etc.

When assets (for example, the electricity grid) are neither excluded through negative

screening nor positively selected through thematic investing, it is necessary to have a methodology in place to assess the ESG profile of these projects. Hence the Company has developed an ESG scoring methodology that will allow it to assess the ESG profile of its assets and rank them accordingly.

The Company's ESG scoring methodology has been designed to be as objective as possible. The score primarily reflects the current ESG performance of the investment but also reflects, to a limited extent, the "direction of travel". For example, a business that currently

significantly contributes to climate change will receive some credit if it is investing meaningfully to reduce its contribution. More details on the scoring methodology can be found on the Company's website.

Moreover, in its ongoing effort to improve the portfolio's ESG profile, the Investment Adviser is actively reviewing the ESG aspects of all pipeline assets and engaging with potential Borrowers to better understand their ESG policies. The information gathered will be used in the investment assessment process and will play a prominent role in the Investment Committee's final investment decision.

## Q: HOW HAVE YOUR INFRASTRUCTURE INVESTMENTS FARED DURING THE COVID-19 CRISIS?

**A:** Overall, our infrastructure investments performed very well. One of the attractions of infrastructure debt is that it is stable, and has a low correlation to the broader economy. This is firstly because the demand for infrastructure is typically resilient during downturns in the economic cycle and secondly because, in respect of each loan, there is an equity cushion which can absorb declines in revenues or asset values before the lender's position is affected.

The financial consequences of the COVID-19 crisis were nonetheless so severe that no investment portfolio could remain entirely unscathed.

In particular, we saw problems in some loans which were backed by businesses with a level of exposure to oil and gas prices, including an oil refinery in Sweden and a midstream gathering and processing business in the Permian basin in the United States. In addition, loans exposed to the aviation industry, including aircraft leasing and an airport services company have struggled for obvious reasons during this period. A few sectors, however, such as our investments in telecoms and internet infrastructure (data centres, for example), performed much more strongly than expected during the year, for obvious reasons.

Fortunately, the underperforming assets represented only a small part of the investment portfolio overall. In fact, the decline in the Company's NAV during March 2020 was predominantly caused not by credit issues, but by broad-brush declines in the book value of the Company's assets, driven by benchmarking its assets to the wider financial markets. Broadly speaking, this decline reversed itself over the last financial year, with only a few sectors (such as power, and midstream projects in the US) still trading at a discount to their pre-COVID-19 levels.

## Q: WHY HAS INFRASTRUCTURE DEBT BECOME SUCH AN ATTRACTIVE OPPORTUNITY FOR INVESTORS?

**A:** Historically, a significant amount of debt capital was provided by international banks, but since the financial crisis of 2008, most banks have reduced their balance sheets and their risk appetite. For example, fewer European banks are now active in US infrastructure; in general the overall size of banks' infrastructure loan books has shrunk; almost no commercial

banks nowadays provide mezzanine debt for infrastructure projects. While some institutional investors, such as insurance companies and pension funds, have stepped in to the market, the capital that they provide is significantly less than the capital that has left the market.

Over the same period, the demand for infrastructure debt has increased

materially, driven by a growing need for telecoms and internet infrastructure, the decarbonisation of the economy, and the requirement to continually maintain and enhance the existing stock of infrastructure. This structural mismatch between capital supply and demand provides great opportunities for investors to achieve robust risk-adjusted returns.

# Investment Adviser's report

During the year, the Company's NAV per Ordinary Share increased by 6.49p to 103.18p

## THE INVESTMENT ADVISER'S OBJECTIVES FOR THE YEAR

Over the course of the financial year ended 31 March 2021, Sequoia Investment Management Company Limited ("Sequoia") has had a number of objectives for the Company:

Goal	Commentary	Achieved
<b>Gross portfolio return of 8-9%</b>	The Company is fully invested with a portfolio that yields <sup>1</sup> in excess of 8%.	✓
<b>Manage the portfolio responsibly through the COVID-19 period</b>	NAV growth of 6.49p per Ordinary Share, arising predominantly from credit spreads tightening over the year, combined with an improving portfolio credit quality.	✓
<b>Further develop and implement our sustainable investment strategy</b>	The Company established an ESG policy which sets out the ESG criteria and principles applied to its investing activities.	✓
<b>Capital growth to deliver economies of scale and broader benefits</b>	Gross proceeds of £110.0 million raised during the year from one capital raise.	✓
<b>Timely and transparent investor reporting</b>	Factsheet, commentary and the full portfolio are provided monthly for full transparency.	✓
<b>Dividends of 6.25p per share</b>	The Company paid 6.25p of dividends per Ordinary Share during the year. Cash cover <sup>1</sup> of 1.04x on the dividend.	✓



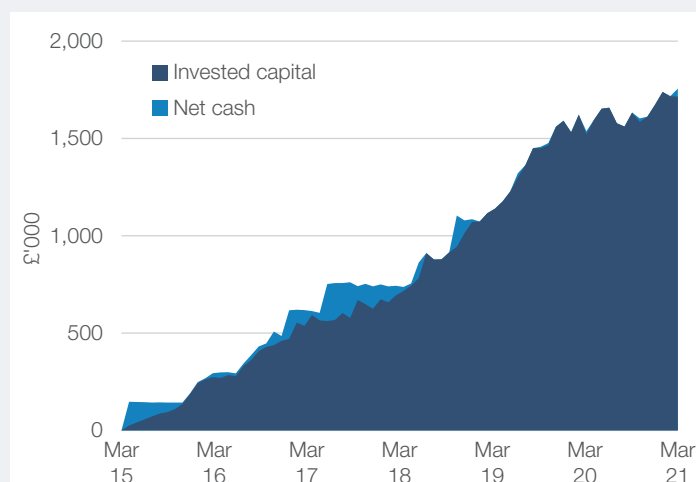
1. See appendix for Alternative Performance Measures ("APMs").



## CAPITAL RAISED AND SHARE PERFORMANCE

During the 2021 financial year, and in light of the uncertainty and disruption caused by COVID-19, the Investment Adviser focused on the enhanced monitoring and management of existing portfolio investments. The Company completed one capital raise in March 2021, which raised gross proceeds of £110 million. The proceeds were used to repay some of the Company's existing debt. As at 31 March 2021, the Fund had cash of £124.5 million and had drawn £83.9 million on its £280 million revolving credit facility. The Company also had undrawn commitments on existing investments collectively valued at £62.7 million.

## CAPITAL RAISING AND DEPLOYMENT SINCE IPO



As at 31 March 2021, the Company had 1,763,120,710 Ordinary Shares in issue. The closing share price on that day was 104.2p per Ordinary Share, implying a market capitalisation for the Company of approximately £1.8 billion, compared to £1.6 billion a year previously. The share price continued to grow steadily throughout the year, growing 10.9% year-on-year.

## NAV PERFORMANCE

Over the financial year, the Company's NAV per Ordinary Share<sup>1</sup> increased by 6.49p post-dividend from 96.69p to 103.18p, driven by the following effects:

Factor	NAV effect (pence)
Interest income on the Company's investments	8.27
Losses on foreign exchange movements, net of the effect of hedging	(0.32)
Positive market movements	6.09
IFRS adjustment from mid-price at acquisition to bid price	(0.32)
Operating costs	(1.11)
Gains from issuing Ordinary Shares at a premium to NAV	0.13
<b>Gross increase in NAV</b>	<b>12.74</b>
Less: Dividends paid	(6.25)
<b>Net increase in NAV after payments of dividends</b>	<b>6.49</b>

During the year, the spread widening across the portfolio during the second half of March 2020 continued its reversal, with several of the Company's investments performing better than expected throughout the lockdown. The increase in the Company's NAV during the year is mainly attributed to interest income received from the Company's investments and positive market movements. Throughout the year, the Company has witnessed significant mark-ups in asset valuations as several of the Company's investments performed better than expected despite the various COVID-19 induced restrictions in various countries. These exceptional positive market movements contributed to a 6.09p increase in NAV. The Company also paid 6.25p in dividends during the year, in accordance with its target.

# Investment Adviser's report continued

## Share price total return of 42% since IPO

### ECONOMIC INFRASTRUCTURE AS A DIVERSE, SUSTAINABLE AND HIGHLY CASH-GENERATIVE ASSET CLASS

It is worth taking a moment to provide important context to the effect of COVID-19 on the Fund's portfolio and on the economic infrastructure debt asset class as whole.

Economic infrastructure debt is a stable asset class typically characterised by high barriers-to-entry and relatively stable cash flows, and includes sectors such as Transportation, Utilities, Power, Telecommunications and Renewables.

Economic infrastructure is often supported by physical assets, long-term concessions or licences to operate infrastructure assets and these companies frequently operate within a regulated framework. This is especially true in the cases of the Utilities, Telecommunications and parts of the Power sector.

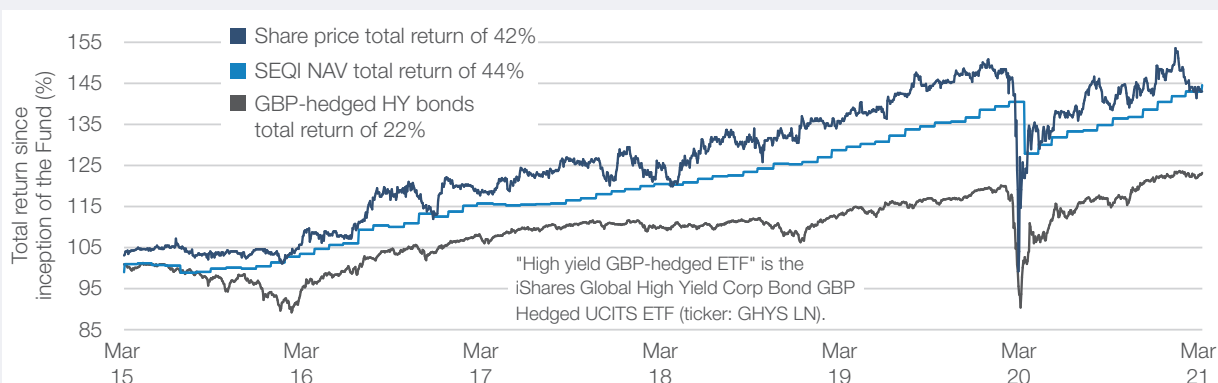
A characteristic that economic infrastructure sectors have in common is that they earn their revenues from demand, usage or volume. This means that a project's revenues are linked to the utilisation of the project, such as a toll road where revenues are dependent or partially dependent upon traffic volumes.

This is in contrast to social infrastructure, such as schools and hospitals, which are often compensated for the physical asset simply being available for use.

To mitigate demand risk, economic infrastructure projects are typically less highly geared than social infrastructure and have higher equity buffers, more conservative credit ratios, stronger loan covenants, and higher levels of asset backing for lenders. Economic infrastructure also provides higher returns than social infrastructure and is a much larger market.

### TOTAL RETURN SINCE THE INCEPTION OF THE COMPANY TO 31 MARCH 2021<sup>1</sup>

When compared to other debt indices during the March 2020 COVID-19 related sell-off, the fall in the Company's NAV compares relatively favourably to non-infrastructure asset classes. Over the last year, the Company's good performance continued to drive up the Fund's NAV, closing at 103.18p per Ordinary Share as at 31 March 2021.



1. See appendix for Alternative Performance Measures ("APMs").

These characteristics of economic infrastructure – stable cash flows, high barriers-to-entry, physical assets, equity buffers and lower gearing – all form the bedrock upon which SEQI's investment opportunities are based and analysed. This is not expected to change, regardless of what is going on in the markets, because these core features of economic infrastructure all contribute to strong fundamentals that are critical for weathering storms.

With that said, economic infrastructure debt is not immune to market volatility and there are certain actions we took, some of which occurred well before the COVID-19 pandemic.

These actions have helped position the portfolio defensively for a potential downturn, which we have discussed with many of you over the last couple of years.

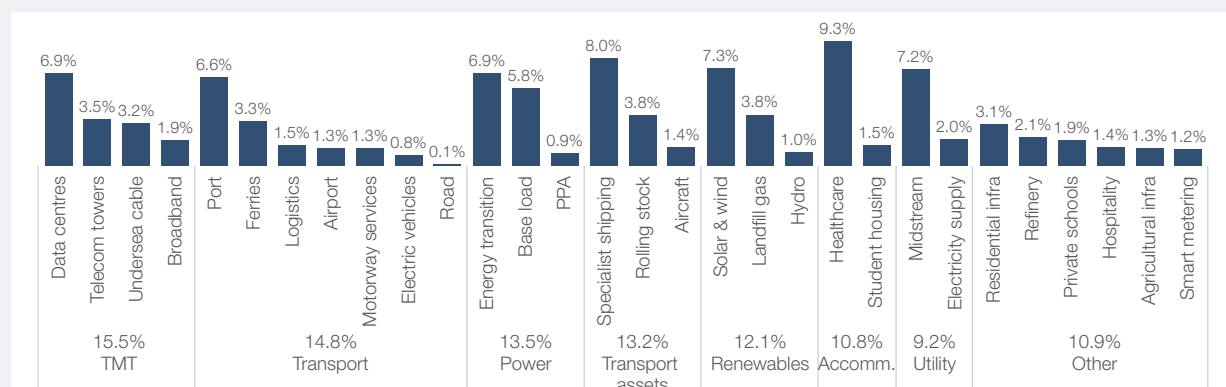
### DIVIDEND COVER

Although the Company experienced a drop in cash income during the 2021 financial year, the dividend remained fully cash covered<sup>1</sup> at 1.04x. The drop in cash income during the year was driven by:

- Sterling LIBOR falling by circa 0.5% reduced cash income by about 0.3% given the high proportion of floating rate investments; and

- some borrowers have asked that their interest PIKs (i.e. rolls up) during the COVID-19 lockdowns. The "normal" level of PIK interest in the portfolio is around 10-15%, reflecting construction loans and some mezzanine loans that are designed to PIK, but this has risen to 15%-20% during the period. Some of this effect has already reversed in the first quarter of 2021 and the Investment Adviser expects this trend to continue. It is worth noting that in many cases the Fund receives enhanced economics for allowing these loans to PIK.

The Company's investment portfolio is therefore diversified by borrower, jurisdiction, sector and sub-sector, with strict investment limits in place to ensure that this remains the case. The chart below shows portfolio sectors and sub-sectors as at 31 March 2021:



1. See appendix for Alternative Performance Measures ("APMs").

# Investment Adviser's report continued

## CREDIT MONITORING

Some types of infrastructure have remained largely unaffected by the COVID-19 lockdowns. These include renewables, data centres, mobile phone cell towers, smart metering, specialised healthcare, US power, specialist shipping and residential infrastructure. Some investments in other sectors, such as transportation, transportation assets, and midstream oil & gas, however, had greater exposure to COVID-19 and low oil prices and required close monitoring and communication with the borrowers in the last 12 months.

As noted previously, there are three investments which have been adversely affected and, as a result, one of them was restructured in July 2020. The performance of two out of these three investments has improved significantly over the course of the year and the Investment Adviser expects this trend to continue. An additional investment was also negatively affected by the extended lockdowns during the second half of the year. These investments were very closely monitored throughout the financial year and the key developments are summarised below.

### 1. US midstream

Following a debt restructuring in July 2020, our senior and holdco loans to a US midstream business were exchanged for a package of first and second lien loans as well as some common and preferred equity. These new instruments are approximately in aggregate equal to 2.9% of the Company's gross asset value. The outlook for the Company has improved significantly since the consummation of the restructuring on the back of the recovery of oil prices. A new management was installed in Q4 2020 and moved swiftly to cut costs, renegotiate unprofitable contracts and sign up new customers. The Company's gas gathering and processing system is now largely complete and the asset is well positioned to benefit from further output increases in the Permian basin.

### 2. Swedish refinery

A loan backed by a Swedish business that owns two oil refineries, as well as some downstream assets. This loan is equal to 2.1% of the Company's gross asset value. The business suffered a liquidity shock in 2020 when the decline in the price of oil reduced the amount of inventory financing it could draw, coupled with margin calls on its commodity hedging book. However, the price of crude oil has materially improved since mid-2020 and the liquidity position of the borrower has significantly improved as a result. Therefore, the Investment Adviser expects that the loan will continue to be serviced.

### 3. German CHP plant and logistics business

A loan backed by a German combined heat and power ("CHP") plant that provides heat (in the form of steam) to industrial companies in the automotive sector, as well as selling electricity to the grid. This loan represents approximately 2.7% of the Company's gross asset value. Following the COVID-19 pandemic, the automotive industry suffered a decline in sales volumes and the key off-takers to the plant reduced the amount of steam that they are purchasing from the CHP plant. In addition, the sector in Germany is faced with legal uncertainty as certain energy levy exemptions historically enjoyed by industrial companies which purchase heat from CHP plants are being challenged. The Investment Adviser is closely following the situation.

### 4. US private school

A loan backed by a large building in a prime area in Washington D.C., occupied by a private school under a long-term lease agreement. This loan is approximately 1.9% of the Company's gross asset value. Following the COVID-19 pandemic, school enrolments declined and were lower than expected, which ultimately led to the school failing to pay rent to the property-owning company and, consequently, impairing that company's ability to pay cash interest on its loan.

The Investment Adviser is closely and actively following the situation. The school is working on various fundraising efforts that, if successful, will recapitalise the school and enable it to pay rent going forward. The Company commissioned an updated valuation of the property in January 2021 which indicates that, even if the school's capital raising is unsuccessful, and the property becomes untenanted, the loan will remain well covered by the vacant-possession value of the property.



## Case study

# INFINIS £65.0 million

Infinis is a leading UK renewable energy platform with 472MW of installed capacity and the UK's largest generator of low carbon power from captured methane. The operating platform currently spans 150 sites and four business divisions: renewable baseload Captured Landfill Methane; baseload Captured Mineral Methane; Power Response; and Solar. Infinis' main energy production comes from their Captured Landfill Methane division which operates a portfolio of 103 landfill sites with revenues contracted under the UK's Renewables Obligation Certificate regime. Methane gas is created from decomposing organic waste in landfills, captured through a network of pipes and gas wells, converted into renewable electricity via a fleet of engines and exported to the grid.

Infinis is owned by 3i Infrastructure plc, a private equity infrastructure sponsor. The new funding structure will facilitate Infinis' growth objectives in developing additional solar power generation. The loan is senior secured, has several financial and operational covenants with cash sweep in later years.

Infinis has made significant progress in developing its Solar division, aiming to co-locate solar PV technology on sites where it generates renewable power from Captured Landfill Methane.

[LINK TO ESG](#)



Renewable  
energy

Image: Infinis

# Investment Adviser's report continued

## ORIGINATION ACTIVITIES

The Company's strategy is to invest in both the primary and secondary debt markets. Sequoia believes that this combination delivers a number of benefits: participating in the primary markets allows the Company to generate upfront lending fees and to structure investments to meet its own requirements; and buying investments in the secondary markets can permit the rapid deployment of capital into seasoned assets with a proven track record. As the Company grows in size, Sequoia expects to source an increasing number of opportunities from the primary market.

### Primary market origination

The primary loan markets are the most important investment opportunity for the Company. The Investment Adviser has sourced bilateral loans and participated in "club" deals, where a small number of lenders join together. The Company has also on occasion participated in more widely syndicated infrastructure loans. Primary market loans often have favourable economics because the Company, as lender, benefits from upfront lending fees. As the Company has grown, primary market investment activity has grown to surpass secondary market investments, with 84% of the portfolio comprising primary investments as at 31 March 2021.

### Secondary market origination

Some of the Company's investments continue to be acquired from banks or other lenders in the secondary markets. This has enabled a relatively rapid deployment of capital, since primary market transactions in infrastructure debt can often take a considerable time to execute. In addition, secondary market loans have performance history that permits credit analysis on actual results rather than financial forecasts. Research<sup>1</sup> shows that infrastructure loans improve in credit quality over time so secondary loans in many cases have improved in credit quality from the time of their initial origination.

Lastly, a number of high-quality economic infrastructure investments appear on the secondary market at attractive prices from time to time. In fact, the Company was able to acquire attractively priced secondary market opportunities that emerged as a result of the increased market volatility that was observed earlier this year. These represented a significant source of alpha for the Company as it continued to slowly ramp up its deployment to pre-COVID-19 levels throughout the year.

## STRENGTHENING THE TEAM AT SEQUOIA INVESTMENT MANAGEMENT COMPANY

As the Company embarks on its seventh year of operations, a number of growth initiatives at the Investment Adviser have taken place to ensure there are sufficient resources to devote to all monitoring and new origination activities.

To support the enhanced monitoring during the ongoing COVID-19 pandemic while also deploying capital into the Fund's pipeline of investments, the Investment Adviser is currently interviewing for one further Analyst, having hired 11 investment professionals since March 2020 (five Analysts, three Senior Analysts, two Senior Associates and one Vice-President, with some of these additions joining post-year-end). These Analysts will further boost the support available to the VPs and Associates as they continue to thoroughly review all existing investments as well as new opportunities. The Investment Adviser is also bolstering its portfolio management team, having extended job offers to a Fund Controller and an additional Portfolio Analyst who both joined in June 2021. The total net headcount with these additional hires will be 24 by the end of Summer 2021 (compared to 15 as at 31 March 2020 and 19 as at 31 March 2021).

## STRONG PIPELINE OF OPPORTUNITIES

Sequoia continues to monitor the global response to the COVID-19 pandemic as well as the primary and secondary effects of global lockdown measures. As the world slowly emerges from lockdowns, Sequoia believes the Company is particularly well positioned to continue deploying capital into its strong pipeline of mostly private debt infrastructure lending opportunities.

Attractive secondary market opportunities will also be targeted if the pricing on these opportunities is consistent with the Company generating a gross return in excess of 8%. If the market softens as a result of a third wave of COVID-19 infections, then this could potentially be an opportunity to continue improving the average credit quality of the portfolio without sacrificing yield.

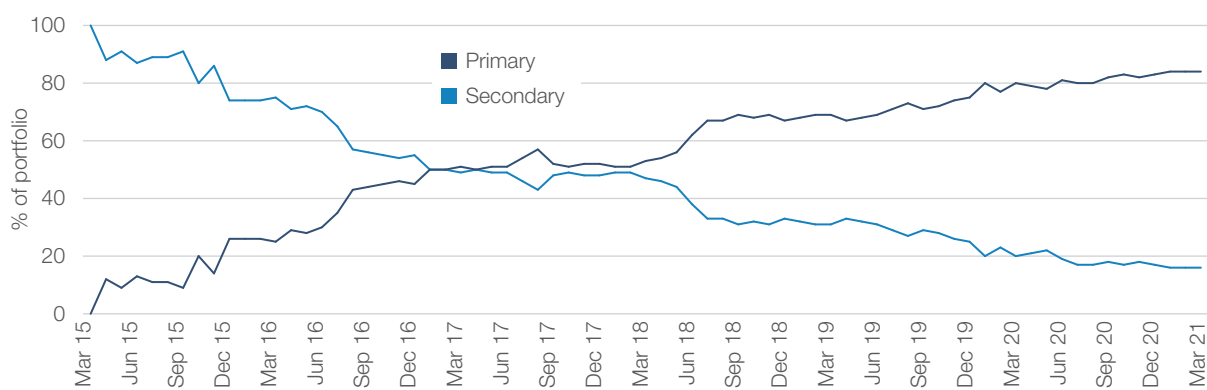
In terms of the pipeline, Sequoia is especially excited about potential investments in the renewables, accommodation and TMT (Telecommunications, Media and Technology) sectors where the current portfolio is arguably underweight. Lending opportunities are often attractive and additional investments into these sectors would be desirable. Investments in these sectors will also provide additional stability should market conditions deteriorate as a result of a third wave of COVID-19 infections or otherwise.

Overall, the opportunity for the Company in economic infrastructure debt remains strong and the asset class continues to be under-invested and attractive. It is in times of market stress that economic infrastructure exhibits itself as a strong and resilient asset class, and so Sequoia is optimistic about the prospects for growing the Company while maintaining its track record of sourcing suitable investments and delivering to Shareholders a total return of 7-8% over the long term.

1. Average annual European broad infrastructure and global project finance default rates. Moody's, "Default and Recovery Rates for Project Finance Bank Loans 1983-2018", March 2020.



## PRIMARY AND SECONDARY INVESTMENTS SINCE IPO



## FUND PERFORMANCE

		31 March 2021	30 September 2020	31 March 2020
Net asset value	per Ordinary Share <sup>1</sup>	103.18p	100.17p	96.69p
	£ million	1,819.1	1,659.1	1,599.9
Invested portfolio	percentage of NAV	94.3%	98.4%	95.8%
Total portfolio	including investments in settlement	97.7%	99.5%	101.2%

## PORTFOLIO CHARACTERISTICS

		31 March 2021	30 September 2020	31 March 2020
Number of investments		72	74	72
Single largest investment	£ million	65.0	62.6	56.5
	percentage of NAV	3.6%	3.8%	3.5%
Average investment size	£ million	23.8	22.1	21.3
Sectors		8	8	8
Sub-sectors	by number of invested assets	31	28	29
Jurisdictions		12	12	13
Private debt		93.3%	92.6%	93.1%
Senior debt		54.7%	53.4%	55.0%
Floating rate	percentage of invested assets	56.5%	62.5%	69.7%
Construction risk		8.1%	11.6%	11.7%
Weighted-average maturity	years	5.6	6.7	6.6
Weighted-average life	years	4.5	5.6	5.3
Yield-to-maturity		9.0%	10.2%	12.0%
Modified duration		2.3	1.7	1.5

## SEQUOIA INVESTMENT MANAGEMENT COMPANY LIMITED

Investment Adviser

5 July 2021

1. See appendix for Alternative Performance Measures ("APMs").

# Investment portfolio

## DIVERSIFIED AND CASH-GENERATIVE PORTFOLIO

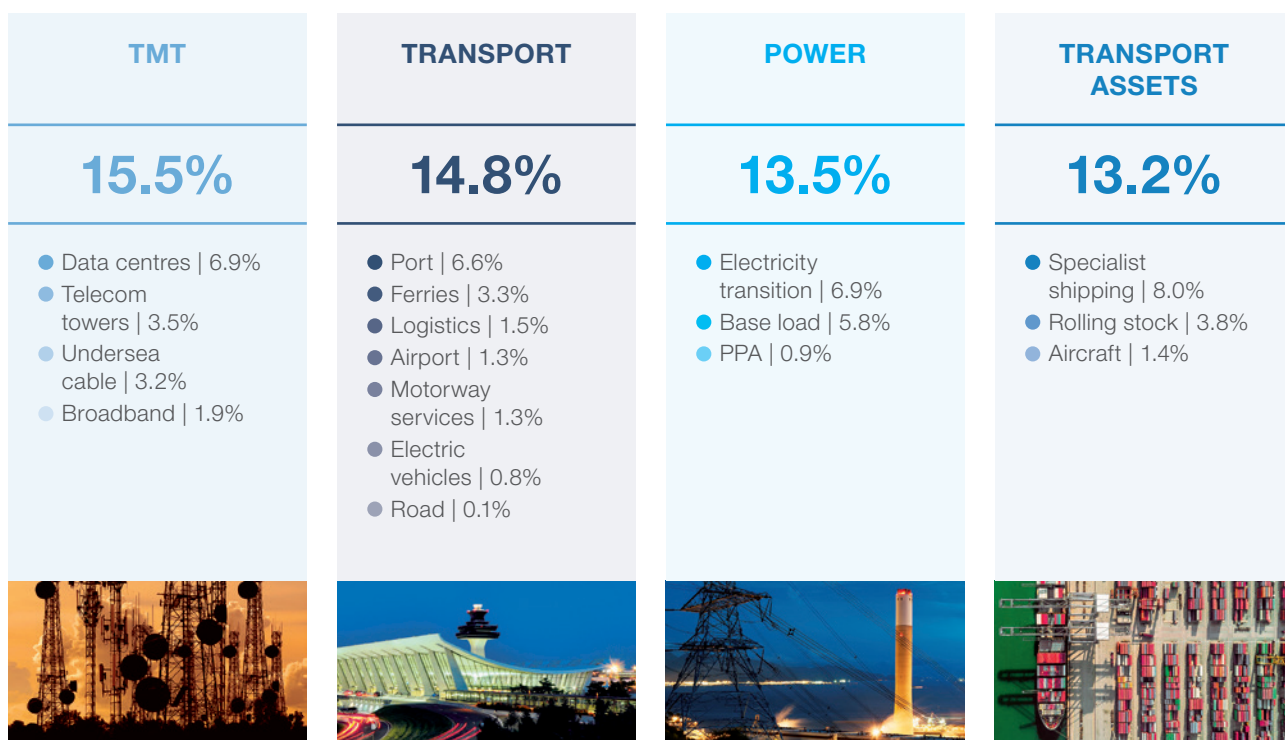
The Company's portfolio remained resilient during the COVID-19 pandemic relative to the broader market. This was due to the defensive late-cycle strategies that the Company started adopting in 2019. These strategies included keeping a large portion of the portfolio in defensive sectors<sup>1</sup>, keeping a strong allocation in senior compared to mezzanine debt, and maintaining the portfolio's credit quality even as spreads tightened prior to March 2020. The Company started adopting these strategies in 2019 because we expected a slowdown in the economy, as the business cycles in the US and the UK reached their 10th year in the second half of 2019. It is important to note that we did not chase yield as spreads tightened over the last few years.

We did not need to do this to maintain yield, as many parts of the infrastructure debt market continue to pay attractive yields.

- We have 48% of the portfolio in defensive sectors. These include Telecommunications, Accommodation, Utilities and Renewables, which are viewed as defensive because they provide essential services, often operate within a regulated framework and have high barriers-to-entry.
- Our Accommodation sector, which stands at 11%, is less exposed to COVID-19 than one may expect, because we have no exposure to the higher-risk sub-sectors within Accommodation such as old age care and acute hospitals.

- We have 55% of the portfolio in senior and 45% in mezzanine as opposed to more of a 50-50 blend, to position the portfolio better for a slow growth environment.
- We have maintained the credit quality of the portfolio over the last 12 months while still achieving our target yield. We have a policy of not purchasing CCC quality names.

The Company's investment portfolio is therefore diversified by borrower, jurisdiction, sector and sub-sector, with strict investment limits in place to ensure that this remains the case. The graphic below shows portfolio sectors and sub-sectors as at 31 March 2021:



1. Accommodation, Telecommunications, Utilities and Renewables.



Geographically, the Company invests in stable low-risk jurisdictions. Under the terms of its investment criteria, the Company is limited to investment-grade countries, and has chosen to pursue selected opportunities in Spain, but not in Portugal or Italy, where in addition to the obvious economic challenges, infrastructure projects have also been exposed to regulatory and legal risks.

The Company has been focused on the United States, Canada, Australia, the UK, and Northern and Western Europe.

The Company focuses predominantly on private debt, which as at 31 March 2021 represented approximately 93% of its portfolio. This is because, typically, private debt enjoys an illiquidity premium: i.e. a higher yield than a liquid bond with otherwise similar characteristics. Since the Fund's main investment strategy is "buy and hold", it makes sense to capture this illiquidity premium. Sequoia's research indicates that infrastructure private debt instruments yield approximately 1% more than public, rated bonds.

However, in some cases, bonds can also be an attractive investment for three reasons.

Firstly, some bonds are "private placements" which, whilst in bond format, have an attractive yield that is comparable to loans.

Secondly, some sectors, such as US utility companies, predominantly borrow through the bond markets, and therefore having an allocation to bonds can improve the diversification of the portfolio. Thirdly, having some liquid assets in the portfolio enables the Company to take advantage of future opportunities and can also be used to satisfy the Company's potential tender obligations.

The Company remains committed to limiting exposure to greenfield construction risk in the portfolio. Whilst up to 20% of the NAV can consist of lending to such projects, the actual exposure to assets in construction as at 31 March 2021 was 8.1% of the portfolio.

Sequoia is careful to select projects where it believes the Company will be well compensated for taking a moderate level of construction risk, and where the underlying strength of the borrower's business or project mitigates the risk.

The Company takes its corporate and social responsibilities seriously and has focused on further developing and implementing an ESG policy during the fiscal year. This strategy is described in more detail in the Sustainability section of this report; it will allow the Company to generate attractive and sustainable returns through responsible and disciplined investment into a growing portfolio of diverse economic infrastructure debt.

## RENEWABLES

**12.1%**

- Solar and wind | 7.3%
- Landfill gas | 3.8%
- Hydro | 1.0%



## ACCOMMODATION

**10.8%**

- Healthcare | 9.3%
- Student housing | 1.5%



## UTILITY

**9.2%**

- Midstream | 8.2%
- Electricity supply | 2.0%



## OTHER

**10.9%**

- Residential infrastructure | 3.1%
- Refinery | 2.1%
- Private schools | 1.9%
- Hospitality | 1.4%
- Agricultural infrastructure | 1.3%
- Smart metering | 1.2%



## Case study

# Project Hawkeye

## USD 74 million

Spruce is the largest private owner and operator of residential solar assets in North America. Spruce's diverse portfolio comprises over 50,000 residential solar photovoltaic installations across 16 States totalling over 325MW of generating capacity. The portfolio's electricity revenues are generated under long-term power purchase agreements and leases with creditworthy homeowners. Residential solar offers a clear value proposition to the US consumer providing clean renewable energy at a discounted price to local utilities. Energy Service Experts, a wholly owned subsidiary of Spruce, provides a full range of services to the portfolio including O&M and collections and billings. Spruce is owned by HPS Investment Partners, a large institutional investor.

The Sequoia holdco loan was sized on contracted cash flows allowing Spruce to refinance existing debt and pursue targeted acquisitions. Sequoia advanced an additional USD 20 million in Q1 2021 to facilitate the continued growth of the business. The holdco loan is repaid through a 100% cash sweep and further benefits from receiving all net proceeds of a senior debt refinancing.

# 8.25%

Cash-on-cash yield

# 8.25%

Yield to maturity

# £53.4m

Size





# MAKING AN ENVIRONMENTAL IMPACT

## LINK TO ESG



Renewable  
energy



Enabling transition to  
a lower carbon world

Image: Hawkeye Solar



# Sustainability

The Company has implemented a comprehensive programme incorporating broad ESG considerations into its approach to investment.

## Our climate pledge

- 1 | We support the Paris climate goals to limit the global average temperature increases to well below 2°C, and to pursue efforts to limit the temperature increase to 1.5°C.
- 2 | We support the goal of the world reaching net-zero carbon emissions by 2050.
- 3 | We will endeavour to dispose of investments which are contrary to our ESG policy.
- 4 | We will use our ESG policy to score our loan book and, by investing in higher-scoring opportunities and disposing of lower-scoring opportunities, we aim to improve the ESG score of our loan book over time.
- 5 | We will engage proactively with the companies we lend to, to encourage them to work towards the Paris goals.
- 6 | We will, where appropriate, embed covenants into loan agreements to oblige contractually our borrowers to adopt and comply with appropriate environmental policies.
- 7 | We will embed covenants into loan agreements to oblige contractually our borrowers to report appropriate environmental metrics.
- 8 | We will engage with regulators and policy makers wherever we believe we can accelerate or improve action to combat climate change.
- 9 | We will speak out publicly, and build or support coalitions of like-minded investors and thought-leaders, to drive change where we believe this will be effective.
- 10 | We will report to our investors our compliance with our ESG policies.



## The Fund has adopted a comprehensive set of environmental policies and strategies, as set out in more detail in the ESG Policy.

As described in the Company's Sustainability Impact Statement published on our website ([www.seqifund.com/investors/documents-circulars](http://www.seqifund.com/investors/documents-circulars)), the Fund also takes into account, where appropriate, credit risks arising from climate change by looking at a range of climate scenarios. In these scenarios, investments may be affected by a range of factors such as economic disruption, changes in commodity prices (including power), an increase in the incidence of extreme weather events, changes in public policy and demographic changes.

### ACTIONS TO ADDRESS PRINCIPAL ADVERSE SUSTAINABILITY IMPACTS

During the reference period, the Fund has adopted a comprehensive set of environmental policies and strategies, as set out in more detail in the Policy. The Fund has gathered a significant amount of data from its borrowers on their ESG profile and used this to help formulate its strategy.

It has retrospectively scored its entire loan portfolio against ESG criteria and adopted positive and negative screening for future investments.

In parallel with this, the Fund has disposed of a number of legacy investments that were not compliant with its new ESG policy.

Over the course of the next reporting period, the Fund hopes to achieve the following goals:

- Continue to promote beneficial investments through the allocation of the Fund's capital.
- Continue to work with its portfolio of borrowers and encourage them to improve their ESG profiles.
- Improve the quality and extent of its reporting to the Fund's investors.
- Improve the average ESG score of its portfolio and remove or reduce its exposure to the lowest-scoring investments.

### ENGAGEMENT POLICIES

The Fund takes a proactive approach to managing its loan book, and engages with borrowers (in relation to ESG topics) in a number of important ways, as set out in more detail in its ESG Policy. In summary, these include:

- Incorporating environmental considerations into loan terms, such as covenants to comply with environmental regulations, manage pollution, reduce carbon emissions and adopt water and wastewater management strategies.
- Reporting requirements on environmental metrics such as carbon footprint, energy intensity and recycling ratios.
- Exercising voting rights in loan agreements responsibly and taking account of the environmental consequences of voting.
- Engaging with the management of its borrowers to encourage them to adopt policies that would be beneficial for the environmental and reduce their impact on climate change.
- To consider disposing of investments where adequate progress towards climate goals is not being made.



### GUIDELINES



Alignment with community goals



Commitment to sustainability goals



Efficient use of resources



Reduced environmental footprint



Sustainable economic development

### CONSIDERATIONS

- Health and safety of residents: pollution and noise
- Historical and cultural elements preservation and project's visual impact
- Counterparties' commitment to sustainability, including an adequate maintenance plan
- Other indicators of commitment to sustainability
- Materials recycling, reduction of energy and water consumption and limitation on use of landfills
- Alternative water sources usage and consumption of renewable energy
- Emissions of greenhouse gasses and air pollutants
- Usage of environmentally friendly and biodegradable materials
- Use of farmland and natural buffer zones
- Job creation and workforce skills development
- Support of local social and business community

# Sustainability continued

Throughout the year, the Company has implemented a comprehensive programme establishing and incorporating broad ESG considerations into its approach to investment.

## ESG POLICY – SUMMARY

Throughout the year, the Company has implemented a comprehensive programme establishing and incorporating broad ESG considerations into its approach to investment.

The Board and the Investment Adviser take their corporate and social responsibilities seriously. The Company already has strong ESG credentials and, on 10 March 2021, the Company published its updated ESG policy and reporting criteria [www.seqifund.com/investors/documents-circulars/](http://www.seqifund.com/investors/documents-circulars/), setting out the criteria and principles applied to its investing activities.

During the last fiscal year, the Company has made significant progress on ESG, including:

- The Investment Adviser fully incorporated the United Nations Principles for Responsible Investment (“UNPRI”) in its investment processes and decisions.
- The Company continued operating its business and its investment activities in accordance with the UN Global Compact.
- The Company started complying with the reporting obligations of the Sustainable Finance Disclosure Regulation (“SFDR”) (as applicable, in particular Article 8).
- The Company engaged KPMG LLP to provide independent limited assurance under ISAE (UK) 3000 over SEQI’s portfolio’s overall ESG score, as marked with symbol<sup>4</sup>. The assurance opinion can be found on the Company’s website [www.seqifund.com/investors/documents-circulars/](http://www.seqifund.com/investors/documents-circulars/).

- With a view to gaining greater insight of the Company’s upstream emissions and engaging with suppliers on the steps they are taking to reduce these, the Board of the Company has recently written to each of its top 10 service providers regarding their impact on the environment and their commitment to, and strategies for, reducing carbon emissions. We intend to maintain this dialogue going forward. Additionally, each supplier’s progress in reducing avoidable emissions will become a factor in our award of contracts to key service providers.

The guiding principles behind the ESG programme are the UNPRI, to which the Investment Adviser is a signatory. These principles now cover investments in private debt, and as such are highly relevant to the Company’s business. In addition, the Investment Adviser has incorporated these principles into all stages of its investment process:

- The origination of new investments includes enhanced negative and positive screening.
- Due diligence and credit analysis include thoroughly assessing the potential impact of climate change, enhanced environmental impact and technical assessments, and ESG questionnaires for borrowers.
- Loan documentation can include, where appropriate, ESG considerations. For example, these could include enhanced reporting by borrowers in relation to their environmental impact.

The Company’s reporting to its Shareholders will be expanded to cover ESG. In particular, it will take the recommendations of the Task Force on Climate-related Financial Disclosures (“TCFD”) into account, including those recommendations specific to the banking sector, and the Company aims to provide best-in-class disclosure.

In parallel with this, the Investment Adviser has retrospectively reviewed the Company’s existing portfolio and assessed whether it is currently holding investments which, had these policies been in place at the time, would not have been made. The Investment Adviser positively notes that there were minimal “red flag” investments in the portfolio at the time of review, and this is only expected to improve over time as the ESG policy is more firmly embedded within the investment process. Two “red flag” investments were identified, including a loan to an airport services provider and a loan to a coal export terminal. The airport services investment was sold during the period and the coal export terminal matured in June 2021.

Based on its review, the Investment Adviser does not believe this process will materially change the investment portfolio’s yield or diversification given the portfolio’s existing ESG credentials that derive from current mandate restrictions. These restrictions include the exclusion of investments in oil and gas exploration and production (“E&P”), military or tobacco, gambling and alcohol.

The Company therefore views its ESG initiative as building upon solid foundations and being in a period of continuing evolutionary, rather than revolutionary, change.

## APPLYING ESG PRINCIPLES TO SEQI

ESG principles are applied in three ways to the SEQI portfolio:

### 1. NEGATIVE SCREENING

### 2. THEMATIC INVESTING (POSITIVE SCREENING)

### 3. ESG SCORING

#### THE FOLLOWING SUB-SECTORS OR ASSET TYPES ARE EXCLUDED:

- Military infrastructure, such as military housing.
- Infrastructure related to the exploration and production of oil and gas, such as oil rigs and platforms, fracking facilities and facilities involved in tar sands. Note that midstream assets such as pipelines are not necessarily excluded but are subject to ESG scoring as set out below.
- Infrastructure related to mining thermal coal.
- Electricity generation from coal.
- Alcohol, gambling and pornography are already excluded by SEQI's investment criteria.

### 1. NEGATIVE SCREENING

### 2. THEMATIC INVESTING (POSITIVE SCREENING)

### 3. ESG SCORING

Currently, SEQI has three ESG investment themes. Positive screening will be employed to increase the Fund's exposure to these investment themes, subject to existing concentration limits.

- Renewable energy, such as solar, wind and geothermal generation, and directly related businesses including companies that supply renewable energy.
- Enabling the transition to a lower carbon world, such as grid stabilisation, electric vehicles, traffic congestion reduction and the substitution of coal by gas.
- Infrastructure with social benefits, such as healthcare, clean water and education.

As at 31 March 2021, thematic investing covers 59% of SEQI's investment portfolio, split 17% renewable energy, 23% enabling the transition to a lower carbon world and 19% infrastructure with social benefits.

The following table shows examples of anonymised investments in each theme:



#### Renewable energy

- A diversified US renewables business
- Hydro power
- Offshore wind turbine repair vessels
- US residential roof solar panel business
- UK electricity supplier sourcing renewable energy
- Spanish solar power portfolios
- UK landfill gas



#### Enabling the transition to a lower carbon world

- German combined cycle gas turbine ("CCGT") plant
- Grid enhancement assets such as peaker plants
- US gas pipelines and other midstream assets
- Nordic specialist shipping
- Electric vehicles



#### Infrastructure with social benefits

- Telecom towers
- UK specialist healthcare
- Student housing in a range of jurisdictions
- US schools

# Sustainability continued

## APPLYING ESG PRINCIPLES TO SEQI CONTINUED

### 1. NEGATIVE SCREENING

Some infrastructure assets (for example, the electricity grid) are neither excluded through negative screening nor positively selected through thematic investing; therefore, it is necessary to have a methodology to assess the ESG profile of these projects.

The ESG scoring methodology has been designed to be as objective as possible. The score primarily reflects the current ESG performance of the investment but also reflects, to a limited extent, the “direction of travel”. For example, a business that currently significantly contributes to climate change will receive some credit if it is investing meaningfully to reduce its contribution.

Note that the ESG score is distinct to a credit rating. Some elements of ESG scoring will directly affect a borrower's credit rating (for example, weak corporate governance has a negative contribution to credit quality) but nonetheless it is entirely possible for a business with a weak ESG score to have a strong credit profile, and vice versa.

### 2. THEMATIC INVESTING (POSITIVE SCREENING)

### 3. ESG SCORING

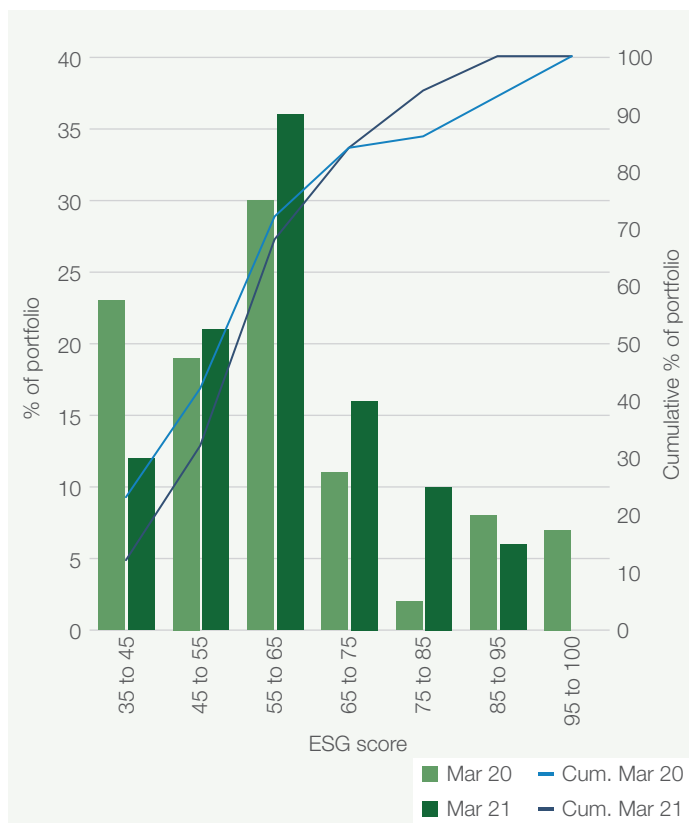
To facilitate ESG scoring during the investment process, the Investment Adviser designed an ESG scoring model that must be completed prior to bringing a new investment to Investment Committee. The intention also is to provide the credit analysts a guide for ESG considerations at the earliest stages of due diligence. Implementing the ESG model at the beginning of the deal lifecycle will flag assets with weaker ESG credentials much earlier.

Finally, the scoring methodology and model have been calibrated such that renewable energy projects with the most robust social and governance practices would receive a score of 100, and a power plant that burns thermal coal with no redeeming social or governance policies would receive a score of 0. Needless to say, the power plant in this example would not make it past the Investment Adviser's new business committee.

### ESG SCORE DISTRIBUTIONS AS AT 31 MARCH 2021

During the last 12 months, the portfolio's overall ESG score increased to 60.59<sup>Δ</sup> from 59.61. For details of how the ESG score is compiled and derived, please see our ESG policy and reporting criteria ([www.seqifund.com/investors/documents-circulars](http://www.seqifund.com/investors/documents-circulars)). The chart alongside represents a comparison of the portfolio's ESG profile between March 2020 and March 2021. The percentage of investments in the 85-100 range dropped year-on-year. This was primarily due to the rescoring of the portfolio's individual assets by the Investment Adviser and the ESG auditor in the first half of 2021 during the Company's ESG audit process. The revised scores were slightly lower than the initial scores, as the Investment Adviser and the auditor exercised significant scrutiny in the rescoring of assets, making the process more robust and rigorous. Furthermore, the Company sold several high-scoring renewable investments during the year to crystallise gains. Overall, it can be noted that the ESG profile of the Fund's investments has improved over the year with a higher percentage of the portfolio shifting from the low score ranges to the high score ranges. This is primarily due to the Investment Adviser favouring investments with strong ESG credentials when making new acquisitions as well as the repayment and disposal of several low scoring investments. Over time, the Investment Adviser expects the distribution to continue to shift to the right as investments with weaker credentials repay, and capital is redeployed in investments with stronger ESG profiles.

### PORTFOLIO ESG DISTRIBUTION



<sup>Δ</sup> Included within KPMG LLP's independent limited assurance scope. The assurance opinion can be found on the Company's website ([www.seqifund.com/investors/documents-circulars](http://www.seqifund.com/investors/documents-circulars)).



## Case study

# SALT LAKE POTASH USD 39.0 million

Based in Western Australia, Salt Lake Potash is building a low emissions fertiliser project which uses solar energy as its primary energy source in the production process for Sulphate of Potash. Potash is a widely used and necessary source of fertiliser for the global food industry. The project also benefits from local aboriginal community participation and SEQI's funding will bring the sponsor one step closer to achieving its goal of developing the world's most sustainable fertiliser project.

The loan was structured to fund the sponsor's first potash project, which is one of the first of its kind in Australia. SEQI participated in a syndicate with Taurus Funds Management, Clean Energy Finance Corporation, and the Commonwealth Bank of Australia. The loan is senior secured and is protected by strong financial and operational covenants. Furthermore, it benefits from a cash sweep and scheduled amortisation.

### LINK TO ESG



Renewable  
energy



Infrastructure with  
social benefits

Image: Salt Lake Potash



# Stakeholders

The Board strives to understand the views of the Company's key stakeholders and take them into consideration.

## STAKEHOLDERS, BUSINESS RELATIONSHIPS AND SOCIALLY RESPONSIBLE INVESTMENT

Whilst directly applicable 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. 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 is required to have in place suitable policies and procedures to ensure it maintains high standards of business conduct, treats customers fairly, and employs corporate governance best practice.

Whilst the primary duty of the Directors is owed to the Company as a whole, all Board discussions involve careful consideration of the longer-term consequences of any decisions and their implications for stakeholders. Particular consideration is given to the continued alignment of interests between the activities of the Company and those that contribute to delivering the Board's strategy, which include the Investment Manager, the Investment Adviser, the Company Secretary, recipients of the Company's capital and providers of long-term debt finance.

The Board's commitment to maintaining high standards of corporate governance; its policy for active Shareholder engagement, combined with the Directors' duties enshrined in Company law; the constitutive documents; the Disclosure Guidance and Transparency Rules; and the Market Abuse Regulation, ensure that Shareholders are provided with frequent and comprehensive information concerning the Company and its activities.

## SECTION 172 STATEMENT

Although the Company is not domiciled in the UK, through adopting and reporting against the best practice principles set out in the AIC Code the Company is voluntarily meeting any obligations under the 2018 UK Corporate Governance Code, including section 172 of the Companies Act 2006.

The Board of Directors recognise their individual and collective duty to act in good faith and in a way that is most likely to promote the success of the Company for the benefit of its members as a whole, whilst also having regard, amongst other matters, to the Company's key stakeholders and the likely consequences of any decisions taken during the year, as set out below:

### The interests of the Company's employees

The Company has no direct employees and maintains close working relationships with the employees of the Investment Adviser, Investment Manager and the Administrator, who undertake the Company's main functions. Refer to the report of the Management Engagement Committee on pages 61 and 62.

### The impact of the Company's operations on the community and the environment

The Company has integrated detailed ESG considerations into its investing activities, designed to mitigate climate change, promote human rights practices and effective corporate governance. Refer to the Sustainability report on pages 30 to 34.

### The need to foster the Company's business relationships with suppliers, customers and others

The Board maintains close working relationships with all key suppliers and those responsible for delivering the Company's strategy. The contractual relationship with each supplier and their performance is formally reviewed each year. Refer to the report of the Management Engagement Committee on pages 61 and 62.

### The desirability of the Company maintaining a reputation for high standards of business conduct

The Chair is responsible for setting expectations concerning the Company's culture and the Board ensures that its core values of integrity and accountability are demonstrated in all areas of the Company's operation.

Refer to Board values and culture on page 50 of the corporate governance statement.

### The need to act fairly between Shareholders of the Company

The Board, in conjunction with the Investment Adviser and Broker, engages actively with Shareholders to understand their views and to ensure their interests are taken into consideration when determining the Company's strategic direction.

## SHAREHOLDERS

### Why engage?

As principal providers of capital, Shareholder capital is deployed by the Company in pursuit of its investment objective which, in turn, generates income for the Company which is used primarily to benefit Shareholders through the payment of dividends.

The Board recognises the importance of active Shareholder engagement to ensure there exists a continued alignment of interests with the objectives of the Company and those of Shareholders, and to inform the Board's future decision making.

### How the Company engages

The Board, in conjunction with the Investment Adviser and the Broker, maintains an ongoing programme of investor engagement which includes investor and analyst presentations, regular announcements on material developments affecting the Company, and meetings with key institutional Shareholders. Feedback from these and other relevant channels of communication forms part of the Board's decision-making process when determining the future strategy of the Company, and taking decisions which may impact Shareholders.

Shareholders are invited to attend and vote at all general meetings where all significant decisions affecting the Company are taken. In particular, the Annual General Meeting where Shareholders may discuss the activities of the Company, its governance and strategy, and raise any issues or concerns directly with the Board.

Routine updates are also provided to Shareholders through the provision of monthly investment update factsheets and net asset value reports, annual and half-yearly financial statements and regulatory news announcements. All of which, in addition to other relevant information concerning the Company, are made available on the Company's website.

The Chair and individual Directors are willing to meet major Shareholders to discuss any particular items of concern or to understand their views on governance and the performance of the Company. General queries can also be submitted to the Board via the Company Secretary at the Company's registered office.

### Key Board decision: implementation of scrip dividend scheme

In July 2020 and in response to continued high levels of demand for the Company's shares, the Board implemented a scrip dividend scheme.

The Directors considered the relative merits both to the Company and to individual Shareholders from the implementation of a scrip dividend scheme, whereby holders of Ordinary Shares are offered the right to elect to receive Ordinary Shares, credited as fully paid and paid in lieu of cash.

Benefits to the Company include the retention of cash which would otherwise have been paid as dividends, whilst continuing to grow and providing Shareholders with the ability to increase their shareholdings in the Company without incurring dealing and other associated transaction costs. UK-resident Shareholders may also be able to treat shares received under a scrip dividend scheme as capital rather than income. Such a facility also provides one mechanism of addressing any imbalance between the supply of and demand for the Company's shares.

### Process

The Company's shares have tended to attract high levels of demand in the market, evidenced by the number of successful and oversubscribed share issuances and that the Ordinary Shares have, apart from a period between late March to early April 2020, consistently traded at a premium since launch.

In addition to receiving the relevant tax and legal advice, in considering whether or not offering a scrip facility was in the best interests of Shareholders, research was undertaken on market precedent and the practice of peer entities with scrip dividends, and the views of proxy voting agencies.

The Company's Articles include a facility for offering a scrip dividend alternative, subject to the passing of an ordinary resolution and, at an Extraordinary General Meeting held on 25 February 2020, Shareholders authorised the Company to offer a scrip dividend in accordance with the terms set out in the Articles. In July 2020, the Directors published a circular setting out the terms and conditions of the scrip dividend scheme to apply for dividends declared in respect of the financial year ended 31 March 2021.

# Stakeholders continued

## BORROWERS

### Why engage?

Engagement with borrowers and gaining an understanding of their needs is fundamental to ensuring an appropriate lending structure is put in place that accurately reflects the risks associated with the borrower's operations. Ongoing monitoring by the Investment Adviser provides updates to the Board on material activity and informs decision making on matters of portfolio risk.

### How the Company engages

The Investment Adviser monitors the performance of borrowers on an ongoing basis and routine reporting to the Risk Committee measures borrower performance against a combination of generic and borrower-specific key performance indicators. This regular interaction with borrowers is supported by all ongoing credit monitoring and updates and Investment Committee reviews being provided to the AIFM and independent consultants.

All borrowers are assessed against the Company's ESG framework which is designed to encourage sustainability and mitigate any negative impacts from corporate activity on the environment and the communities in which they operate.

A detailed monitoring review report is prepared for every asset at least every six months and more frequently depending on risk characteristics or material developments. The Board and all key advisers annually undertake a detailed review of all positions in the portfolio, with a separate session dedicated to certain focus loans based on their risk profile.

## SUPPLIERS

### Why engage?

The Company's suppliers include third-party service providers engaged to provide the core investment advisory, management and administrative tasks. Each of these providers is essential in ensuring the ongoing operational performance of the Company. The Company relies on the performance of third-party service providers to undertake all of its main activities.

### How the Company engages

The Board maintains close working relationships with all of its key advisers and regularly engages on matters relevant to the Company's activities.

Acting through the Management Engagement Committee, the Board oversees and monitors the performance and contractual relationships with each supplier. A detailed annual assessment is undertaken of each supplier to ensure they continue to perform their duties to a high standard and that their objectives remain aligned with those of the Company. This process informs the Board's decision making with regard to the continuing appointment of key suppliers.

The annual Management Engagement Committee meeting was held on 30 March 2021 and reviewed the performance and continued engagement of all key suppliers. A further qualitative assessment was undertaken in respect of the Investment Adviser and with reference to various assessment criteria recommended by the AIC. Refer to the report of the Management Engagement Committee on pages 61 and 62.

## RESPONSE TO SHAREHOLDERS

Recipients of the Company's capital are subject to a comprehensive ESG assessment deployed by the Investment Adviser as part of the Company's investment process, designed to encourage sustainability and mitigate the negative impacts of corporate activity on the environment and the communities in which they operate. Further details can be found in the Investment Adviser's report and the ESG report. The interests of borrowers, sponsors and relevant intermediaries involved in the credit process are also discussed during scheduled Board meetings and in detail during the Board's detailed portfolio review sessions.

The relationship with the providers of the Company's RCF is managed by the Company's service providers. Regular updates are provided on developments concerning the Company and any public announcements, in addition to monthly reporting of portfolio compliance covenants.

The Board respects and welcomes the views of all stakeholders. Any queries or areas of concern regarding the Company's operations can be raised with the Company Secretary.

## LENDERS

### Why engage?

The Company has a syndicate of banks, led by RBSI, which provides a revolving credit facility which is used for efficient deployment into credit opportunities and avoiding any impact to performance from cash drag.

### How the Company engages

The Company's relationship with its lending banks is managed by the Investment Adviser and is overseen by the Investment Manager. The Investment Adviser is responsible for notifying its lending banks of relevant business developments and for preparing compliance certificates on a monthly basis which confirm the Company's adherence to numerous debt covenants.

The Company's funding requirements are reviewed at least quarterly, which includes consideration of amounts drawn on the revolving credit facility ("RCF") and the Investment Adviser's business development pipeline. These factors form part of the Board's decision-making process concerning the operation of the RCF and the Company's capital management strategy.

## SOCIETY

The Company's investing activities contribute to the societies in which its borrowers operate through providing funding for crucial services and facilities.

Through applying a disciplined and socially responsible approach to investment activity the Company seeks to ensure its own long-term sustainable success, and that of the environments in which it operates. The due diligence assessment carried out prior to any new investment ensures that sustainability features at the very core of the investment process.

Economic infrastructure is infrastructure that promotes economic activity, including transport, transportation equipment, utilities, power, renewable energy, accommodation and telecommunications infrastructure.

Since the Company's IPO, it has helped to finance projects with numerous societal benefits including lowering pollution through the provision of renewable energy, providing clean water, improving healthcare facilities, increasing consumer connectivity and enhancing mass transit systems.

# Principal and emerging risks and uncertainties

The Company has carried out a robust assessment of the emerging and principal risks facing the Company.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Board has established a Risk Committee, which is responsible for reviewing the Company's overall risks and monitoring the risk control activity designed to mitigate these risks. The Risk Committee has carried out a robust assessment of the principal and emerging risks facing the Company, including those that would threaten the Company's business model, future performance, solvency or liquidity. The Board has appointed International Fund Management Limited ("IFML" or the "Investment Manager") as the Alternative Investment Fund Manager ("AIFM") to the Company. IFML is also responsible for providing risk management services compliant with that defined in the Alternative Investment Fund Managers Directive ("AIFMD") and as deemed appropriate by the Board.

Under the instruction of the Risk Committee, IFML is responsible for the implementation of a risk management policy and ensuring that appropriate risk mitigation processes are in place; for monitoring risk exposure; preparing quarterly risk reports to the Risk Committee; and otherwise reporting on an ad hoc basis to the Board as necessary.

Since their appointment on 30 January 2018, Tim Drayson and Kate Thurman, independent consultants to the Company, have provided guidance to the Board on the overall approach to risk management across the Company's portfolio. Part of their focus has been to assist the Investment Manager in scrutinising certain of the Investment Adviser's credit evaluations. Anurag Gupta's appointment as Chief Risk Officer ("CRO") of the Investment Adviser in February 2020 provides additional oversight and resource to the Company's risk management function and the due diligence process employed by the Investment Adviser.

## EMERGING RISKS

The Board is constantly alert to the identification of any emerging risks, in discussion with the Investment Manager and the Investment Adviser. The Board will then assess the likelihood and impact of any such emerging risks, and will discuss and agree appropriate strategies to mitigate and/or manage the identified risks. Emerging risks are managed through discussion of their likelihood and impact at each quarterly Board meeting. Should an emerging risk be determined to have any potential impact on the Company, appropriate mitigating measures and controls are agreed.

The emergence of the COVID-19 pandemic, and its ongoing effects, presented a significant emerging risk to markets globally, and prompt action was taken by the Board and its key advisers in March 2020 to assess in full the potential impact to the Company from the resulting exceptional market volatility and widening of spreads. During the year the Company has continued to operate effectively and maintain its enhanced monitoring of the global response to the COVID-19 pandemic as well as the primary and secondary effects of historically low oil prices.

A detailed review of the main financial risks faced by the Company, and how they are managed or mitigated, is set out in note 5 to the Financial Statements.



**KEY**

Low impact risk






Medium impact risk



High impact risk

The principal risks associated with the Company are as follows:



Risk	Potential impact	Mitigation
<b>1</b> <b>Market risk</b> 	<p>The value of the investments made and intended to be made by the Fund will change from time to time according to a variety of factors. The performance of the underlying borrowers, expected and unexpected movements in interest rates, exchange rates, inflation and bond ratings and general market pricing of similar investments will all impact the Company and its net asset value.</p>	<ul style="list-style-type: none"> <li>• AIFM, Broker and Investment Adviser continually monitor market conditions.</li> <li>• Discount control mechanisms (as set out in the Prospectus) to be employed, but only when practical and advisable.</li> <li>• Careful review of investments directly or indirectly affected by COVID-19.</li> </ul>
<b>2</b> <b>Credit risk</b> 	<p>Borrowers in respect of loans or bonds in which the Fund has invested may default on their obligations. Such default may adversely affect the income received by the Company and the value of the Company's assets.</p>	<ul style="list-style-type: none"> <li>• Each asset subject to detailed review either semi-annually or in response to a credit event.</li> <li>• Third-party ratings and sourcing of public information on borrowers.</li> <li>• Detailed credit review process subject to several approval layers prior to transacting.</li> <li>• AIFM reviews all Investment Adviser credit update reports.</li> <li>• Independent consultants provide input to the evaluation of potential new investments and to the ongoing monitoring process.</li> <li>• Enhanced credit process applied in respect of high-risk transactions.</li> <li>• Integration of the Investment Adviser's Chief Risk Officer in credit process.</li> </ul>
<b>3</b> <b>Liquidity risk</b> 	<p>Infrastructure debt investments in loan form are not likely to be publicly traded or freely marketable, and debt investments in bond form may have limited or no secondary market liquidity. Such investments may consequently be difficult to value or sell and therefore the price that is achievable for the investments might be lower than their valuation.</p>	<ul style="list-style-type: none"> <li>• Portfolio liquidity is monitored on an ongoing basis, with approximately 20% of the portfolio in short-term (less than one week) liquidity.</li> <li>• Adoption of an internal liquidity stress testing policy.</li> <li>• Solvency tests required prior to the Company making distributions.</li> </ul>

# Principal and emerging risks and uncertainties

continued

Risk	Potential impact	Mitigation
<b>4</b> <b>Counterparty risk</b> 	Counterparty risk can arise through the Company's exposure to particular counterparties for executing transactions and the risk that the counterparties will not meet their contractual obligations.	<ul style="list-style-type: none"> <li>Counterparty exposures are monitored and movements reported regularly to the Board.</li> <li>Cash management policy in place to restrict the levels of cash permitted to be placed and the required credit ratings of the designated institutions.</li> <li>Assessment of suitability of key counterparties includes consideration of relevant policies and procedures, including business continuity arrangements.</li> </ul>
<b>5</b> <b>Leverage risk</b> 	Leverage risk arises where the Company takes on additional risk because of the leverage of exposures, along with the specific potential for loss arising from a leverage counterparty being granted a charge over assets.	<ul style="list-style-type: none"> <li>The Board monitors the level of leverage on an ongoing basis as well as the credit ratings of counterparties.</li> </ul>
<b>6</b> <b>Compliance and regulatory risk</b> 	Compliance and regulatory risk can arise where processes and procedures are not followed correctly or where incorrect judgement causes the Company to be unable to meet its objectives or obligation, exposing the Company to the risk of loss, sanction or action by Shareholders, counterparties or regulators.	<ul style="list-style-type: none"> <li>The Investment Adviser and the Administrator monitor compliance with regulatory requirements and the Administrator presents a report at quarterly Board meetings.</li> </ul>
<b>7</b> <b>Operational risk</b> 	This is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This can include, but is not limited to, internal/external fraud, business disruption and system failures, data entry errors and damage to physical assets.	<ul style="list-style-type: none"> <li>Effectiveness of the Company's risk management framework and internal control systems reviewed annually. Regular reporting by the Administrator of any internal control failings identified through their independent compliance review function.</li> </ul>
<b>8</b> <b>Political and economic risk</b> 	Brexit and other geopolitical events may have an adverse effect on the Company and its operations.	<ul style="list-style-type: none"> <li>The Risk Committee monitors geopolitical risks on an ongoing basis with independent advice received on emerging developments likely to affect the Company.</li> </ul>

## KEY

-  Low impact risk
-  Medium impact risk
-  High impact risk

# Going concern and viability statement

## GOING CONCERN

The Company has been incorporated with an unlimited life. In accordance with the Company's Articles of Incorporation, the Directors were required to propose an ordinary resolution (the "Continuation Resolution") on or before 3 September 2016 that the Company continues as a registered closed-ended collective investment scheme, and to propose further Continuation Resolutions within every three years thereafter. Should a Continuation Resolution not be passed, the Directors are required, within six months, to put forward proposals for the reconstruction or reorganisation of the Company to the Shareholders for their approval. These proposals may or may not involve winding up the Company and, accordingly, failure to pass a Continuation Resolution will not necessarily result in the winding up of the Company.

The Directors have considered the possibility that the next Continuation Resolution, to be proposed at the 2021 AGM, may not be passed by Shareholders, however they noted the overwhelming majority vote in favour of the Continuation Resolutions passed in May 2016 and August 2018, the consistently strong appetite for the Company's investment proposition, evidenced by a number of successful share issues, most recently in March 2021, and that the Company's shares have, apart from a period from late March to early April 2020, consistently traded at a premium since launch.

The Directors have reviewed the Company's holdings in cash and cash equivalents and investments, including a consideration of the revaluation losses arising on certain investments as a result of the COVID-19 pandemic. In conducting this review, the Board has also considered the sustainability of the environmental and social impact of the Company's activities. Partly as a result of the Company's large capital raise in early March 2020, its balance sheet was exceptionally strong when the consequences of COVID-19 impacted on financial markets, with a very low level of gearing. The balance sheet has been further strengthened by another capital raise in March 2021.

Moreover, the losses that were incurred at the prior year end – which have already begun to reverse, and should continue to do so as the investments mature and their valuations accrete to par – were unrealised, and therefore have no direct effect on the solvency of the business. The risk of realised losses arising through loans defaulting is limited to a few specific investments, representing a small proportion of the Company's investment portfolio. The Directors also note that, despite a reduction in the level of cash income during the year, resulting from the impact of COVID-19 and an oil supply glut on certain of the Fund's investments, the interest income cash flow of the Fund remains sufficient to cover operating costs and to pay the Company's target dividend.

As a result of this review, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the Financial Statements as the Company, despite the ongoing effects of the COVID-19 pandemic, has a strong balance sheet and adequate financial resources to meet its liabilities as they fall due.

## VIABILITY STATEMENT

The Directors have carried out a robust assessment of the viability of the Company over a five-year period to May 2026, taking account of the Company's current position and the potential impact of the principal and emerging risks facing the Company, including risks associated with the current COVID-19 pandemic.

In making this statement, the Directors have considered the resilience of the Company, taking into account its current position, the principal and emerging risks facing the Company in severe but reasonable scenarios and the effectiveness of any mitigating actions. This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period.

The Directors have determined that the five-year period to May 2026 is an appropriate period over which to provide its viability statement as the average remaining life to maturity of the Fund's portfolio of investments has historically generally fallen within the range of four to five years. In making their assessment, the Directors have taken into account the Company's NAV, net income, cash flows, dividend cover, regulatory compliance, the anticipated short-to medium-term effects of COVID-19 and other key financial ratios over the period.

# Going concern and viability statement continued

## **VIABILITY STATEMENT CONTINUED**

These metrics are subject to sensitivity analysis, which involves flexing a number of main assumptions underlying the forecast. This analysis is carried out to evaluate the potential impact of the Company's principal risks actually occurring, primarily the following: severe changes in macro-economic conditions, including a 20% Sterling FX shock, which would trigger margin calls by the Company's FX counterparties; inability to refinance leverage facilities; a 5% haircut to the portfolio's income; and downgrading or illiquidity of loans. This analysis included stress-testing to simulate the combined effects of the 2008 global financial crisis and the 2020 global COVID-19 pandemic.

The viability model also includes projections for the continuing deployment of capital into new target investments. These projections amount to approximately £738 million over the next 30 months in the base case scenario, and to approximately £191 million in the downside scenarios, whilst still supporting the Company's target dividend and meeting its financial targets.

The Directors have also considered the possibility that a Continuation Resolution, to be proposed at the 2021 AGM, may not be passed by Shareholders. The Directors noted the overwhelming majority vote in favour of the Continuation Proposals passed in May 2016 and August 2018 and the strong appetite for the Company's investment proposition evidenced by the successful launch in March 2015, and a number of subsequent significantly oversubscribed Open Offers and Placings, and therefore believe that the likelihood of the Continuation Resolution failing is low. They also noted that the rejection of a Continuation Proposal by Shareholders does not necessarily oblige the Directors to wind up the Company.

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to May 2026.



# GOVERNANCE

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## Board of Directors

The Directors of the Company, all of whom are non-executive and independent, are as follows:



**ROBERT JENNINGS, CBE**

Chair

Robert Jennings is a resident of the United Kingdom and qualified as a Chartered Accountant in 1979. He has over 30 years' experience in the infrastructure sector. Mr Jennings was a managing director of UBS Investment Bank and was joint head of the Bank's Infrastructure Group until 2007. He has twice acted as a special senior adviser to HM Treasury; in 2001/02 during Railtrack's administration and again in 2007/08 in relation to Crossrail.

Mr Jennings served as one of the Department for Transport appointed non-executives on the Board of Crossrail, and was Chair of Southern Water until February 2017. He was appointed to the Board of 3i Infrastructure plc in a non-executive role with effect from 1 February 2018, which is ongoing. In June 2019, he became one of the founding directors of Chapter Zero, whose aim is to provide non-executive directors and other parties a forum by which they can conveniently access guidance on carbonisation, climate change and the role of boards in responding to these challenges, having been a member of its executive steering committee since November 2018.

**Committee memberships:**



**SANDRA PLATTS**

Senior  
Independent Director

Sandra Platts is a resident of Guernsey and holds a Master of Business Administration. Mrs Platts joined Kleinwort Benson (CI) Ltd in 1986 and was appointed to the board in 1992. She undertook the role of Chief Operating Officer for the Channel Islands business and in 2000 for the Kleinwort Benson Private Bank Group – UK and Channel Islands.

In January 2007, she was appointed to the position of Managing Director of the Guernsey Branch of Kleinwort Benson and led strategic change programmes as part of her role as Group Chief Operating Officer. Mrs Platts also held directorships on the strategic holding board of the KB Group, as well as sitting on the Bank, Trust Company and Operational Boards. She resigned from these boards in 2010. Mrs Platts is a non-executive director of Taylor Maritime Investments Limited (appointed 28 April 2021) and UK Commercial Property REIT (both listed on the Main Market of the London Stock Exchange), and Investec Bank (Channel Islands) Limited, plus a number of other investment companies. She is a member of the Institute of Directors.

**Committee memberships:**



**JAN PETHICK**

Independent  
Director

Jan Pethick is a resident of the United Kingdom and has over 35 years' experience in the debt sector. Mr Pethick was Chair of Merrill Lynch International Debt Capital Markets for 10 years, from 2000 to 2010.

He had previously been Head of Global Debt Origination at Dresdner Kleinwort Benson which had acquired the credit research boutique, Luthy Baillie, which he had co-founded in 1990. Prior to that, he worked for 12 years at Lehman Brothers where he was a member of the Executive Management Committee in Europe. Mr Pethick currently serves as Chair of Troy Asset Management and was an independent member of the Supervisory Board of Moody's Investor Services Europe.

**Committee memberships:**



**KEY:****A** Audit Committee**M** Management Engagement Committee**N** Nomination Committee**R** Risk Committee**R** Remuneration Committee**Chair****JONATHON (JON) BRIDEL**

Independent Director

Jon Bridel is a resident of Guernsey. He is currently a non-executive director of a number of London-listed investment funds. Mr Bridel was previously Managing Director of Royal Bank of Canada's investment businesses in the Channel Islands.

After qualifying as a Chartered Accountant in 1987, Mr Bridel worked with Price Waterhouse Corporate Finance in London. He subsequently held senior positions in banking, credit and corporate finance, investment management and private international businesses where he was Chief Financial Officer.

Mr Bridel holds a Master of Business Administration (Dunelm) and also holds qualifications from the Institute of Chartered Accountants in England and Wales, where he is a Fellow, the Chartered Institute of Marketing, where he is a Chartered Marketer, and the Australian Institute of Company Directors. He is also a Chartered Director and Fellow of the Institute of Directors and is a Chartered Fellow of the Chartered Institute for Securities and Investment.

**Committee memberships:****A M N R R**

**Sarika Patel is due to be appointed to the Board following the conclusion of the Company's AGM on 4 August 2021:**

**SARIKA PATEL**

Independent Director

Sarika Patel is a resident of the United Kingdom and brings significant financial, leadership and international experience to the Board. Ms Patel is currently a non-executive director and chair of the audit committee of Aberdeen Standard Equity Income Trust plc ("ASEI"), a UK-domiciled, closed-ended investment trust company listed on the Main Market of the London Stock Exchange. Ms Patel is also currently a board member of the Office for Nuclear Regulation, where she chairs the audit and risk committee, and chair of Action for Children, one of the UK's leading charities for children. Ms Patel was previously a partner at Zeus Caps, a principal investment and advisory platform focused on infrastructure and allied sectors operating in India, Europe and the Middle East. Ms Patel is a Chartered Accountant and a Chartered Marketer.

## Independent consultants

The independent consultants of Sequoia Economic Infrastructure Income Fund Limited are as follows:

### **TIM DRAYSON**

Independent consultant to the Board

Tim Drayson has over 30 years' experience in the US and European debt capital markets. He was most recently Global Head of Corporate Sales & Deputy Head of the European Corporate Debt Platform at BNP Paribas and had been a member of the Fixed Income Transaction Approval Committee, screening complex transactions and interacting with the bank's credit committee. He joined BNP Paribas as Global Head of Securitization in 2005, with responsibility for managing all origination and structuring teams, including infrastructure. Prior to joining BNP Paribas, Mr Drayson held senior roles at Morgan Stanley in London as Head of Securitized Products Distribution and Paine Webber in New York.

### **KATE THURMAN**

Independent consultant to the Board

Kate Thurman is a highly experienced and respected credit market professional having spent over 30 years identifying and analysing credit risk in bond and loan instruments for institutional portfolios. Ms Thurman has broad experience across industry sectors, credit grades, legal structures and jurisdictions, having special expertise in the assessment of quantitative and qualitative credit factors and downside risks. She is a former board and audit committee member of Colne Housing Society, a not-for-profit Housing Association with 3,000 units under management and circa £150 million of commercial debt. Her former executive career included senior roles in asset management and investment banking organisations.



# The Sequoia Investment Management Company team

Sequoia Investment Management Company Limited (“Sequoia”) is an experienced investment adviser, and has acted as Investment Adviser to the Company from its inception. Sequoia’s management team and Investment Committee are as follows:

## RANDALL SANDSTROM

Director and CEO/CIO

29 years of experience in the international and domestic credit markets and infrastructure debt markets.

Has managed global high yield and investment grade bonds, leveraged loans, ABS and money market securities.

Board of Directors, LCF Rothschild and MD of Structured Finance. Former CEO/CIO, Eiger Capital.

Head of Euro Credit Market Strategy, Morgan Stanley. Institutional Investors “All-American” senior Industrial Credit Analyst, CS First Boston (energy and transportation). Has worked in London, New York and Tokyo.

## STEVE COOK

Director and Head of Portfolio Management

20 years of infrastructure experience.

European Head of Whole Business Securitisation and CMBS and Co-Head of Infrastructure Finance at UBS.

Head of European Corporate Securitisation at Morgan Stanley with lending and balance sheet responsibility.

Wide variety of infrastructure projects in the UK and across Europe as a lender, arranger and adviser.

## DOLF KOHNHORST

Director and Co-Head of Infrastructure Debt

37 years of experience in investment banking, debt capital markets and project finance commercial lending.

Head of Société Générale’s Financial Institutions Group covering UK, Irish, Benelux and Scandinavian banks, insurance companies, pension funds and investment management companies.

16 years at Morgan Stanley heading Benelux and Scandinavian sales teams and DCM Structured Solutions Group.

Commercial lending to shipping, construction and project finance sectors.

## GREG TAYLOR

Director and Co-Head of Infrastructure Debt

More than 30 years of infrastructure experience.

Head of Infrastructure Finance at Merrill Lynch and Co-Head of Infrastructure Finance at UBS.

Developed Moody’s methodology for rating regulated infrastructure companies.

Broad perspective as bond arranger, direct lender, credit analyst and financial adviser to both borrowers and public sector. Includes lending in Europe, the UK, North America and Latin America.

## ANURAG GUPTA

Chief Risk Officer (“CRO”)

Over 20 years of experience in project finance, infrastructure investment and appraisal, risk management, M&A and financial advisory.

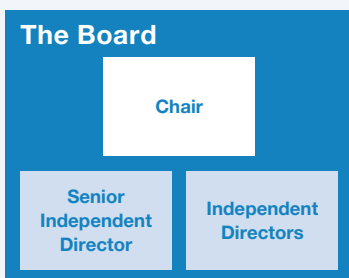
Extensive transactional experience across infrastructure sectors such as transportation, power and utilities, renewables, TMT and social infrastructure.

Former KPMG in Canada Infrastructure Advisory Partner and Global Sector Head of Power within the KPMG Global Infrastructure Practice; previous infrastructure industry roles in both public and private sectors in multiple geographies.

MBA (Tulane University, USA), Bachelors in Mechanical Engineering (Engineering Council, UK) and BSc (Calcutta University, India).

# Corporate governance

The Board places a high degree of importance on ensuring that high standards of corporate governance are maintained.



## Nomination Committee

Responsible for recommending changes to the composition of the Board and reviewing succession planning

Read more on pages 56 and 57

## Audit Committee

Ensures there is confidence in the integrity of internal financial controls and corporate reporting

Read more on pages 58 to 60

## Management Engagement Committee

Responsible for reviewing the remuneration and performance of the Company's service providers

Read more on page 61

## Remuneration Committee

Responsible for the Directors' remuneration policy

Read more on page 63

## Risk Committee

Responsible for the management of risks to which the Fund's investments are exposed

Read more on page 52

## AIC CODE

- Board leadership and purpose (see pages 46 to 50).
- Division of responsibility (see pages 51 to 53).
- Composition, succession and evaluation (see pages 53, 54, 56 and 57).
- Audit, risk and internal control (see page 55 and pages 58 to 62).
- Remuneration (see page 63).

## COMPLIANCE

The Board places a high degree of importance on ensuring that high standards of corporate governance are maintained and has considered the principles and recommendations of the AIC Code of Corporate Governance issued in February 2019 (the "AIC Code"), effective for financial periods beginning on or after 1 January 2019. The AIC Code addresses all the principles set out in the UK Code of Corporate Governance (the "UK Code") in addition to setting out additional principles and recommendations on issues relevant to listed investment funds. The Board considers that reporting against the principles and recommendations of the AIC Code will provide better information to Shareholders and during the year the Board has reviewed its policies and procedures against the AIC Code.

The Board has also taken note of the Finance Sector Code of Corporate Governance issued by the Guernsey Financial Services Commission (the "Guernsey Code"). The Guernsey Code provides a governance framework for GFSC licensed entities, authorised and registered collective investment schemes. Companies reporting against the UK Code or the AIC Code are deemed to satisfy the provisions of the Guernsey Code.

For the year ended 31 March 2021, the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code.

Issues that are not reported on in detail here are excluded because they are deemed to be irrelevant to the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties and as a result the Company has no executive Directors, employees or internal operations and therefore has not reported in respect of provisions concerning the role of the Chief Executive, the remuneration of executive Directors, or the internal audit function.

## BOARD VALUES AND CULTURE

The Chair is responsible for setting the standards and values expected of the Board, and the Board operates with the Company's core values of integrity, transparency and accountability with an aim of maintaining a reputation for high standards in all areas of the Company's activities. The Board recognises the value and importance to all stakeholders of organisations incorporating effective environmental, social and governance policies as part of its day-to-day operations; refer to pages 30 to 34 for additional information. In the furtherance of the Company's ESG aspirations and the increased attention from stakeholders on these matters, the Board is considering the appointment of a dedicated committee with the delegated responsibility for addressing relevant matters of stakeholder engagement. Further details will follow in due course.

Through designing an effective ESG policy which reflects the Board's core values and the alignment of this with the Company's business operations, the Board seeks to promote a culture of openness and constructive challenge amongst those responsible for taking key decisions. The findings from the most recent external performance evaluation endorsed the quality of boardroom debate and high levels of collaboration between all parties as key contributors to a highly effective decision-making process. This is underpinned by a robust corporate governance framework which seeks to align the Company's purpose, values and strategy with the culture set by the Board through active engagement with the Company's key service providers.

## RELATIONS WITH SHAREHOLDERS

The Board believes that the maintenance of good relations and understanding the views of Shareholders is important to the long-term sustainable success of the Company and since launch the Board has adopted a policy of actively engaging with major Shareholders through a variety of means. Further information on how the Company engages with Shareholders can be found in the stakeholders section on pages 36 to 39.

## BOARD RESPONSIBILITIES

The Board meets formally on a quarterly basis to review the overall business activities of the Company and any matters specifically reserved for its consideration. Standing agenda items considered at all quarterly Board meetings cover portfolio performance, capital allocation and deployment, ESG matters, NAV and share price performance, shareholder return metrics, reviewing changes to the risk environment including the assessment of emerging risks, marketing and investor relations, peer group information and industry issues. Consideration is also given to administration and corporate governance matters, legislative developments and, where applicable, reports are received from the Board's formally constituted committees.

The Directors also review the Company's activities every quarter to ensure that the Company adheres to its investment policy. Additional ad hoc reports are received as required and Directors have access at all times to the advice and services of the Company Secretary, who is responsible for ensuring that the Board procedures are followed, and that applicable rules and regulations are complied with. The Board has adopted a schedule of matters specifically reserved for its decision making and distinguishing these from matters it has delegated to the Company's key service providers.

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

The Board actively monitors the level of the share price premium or discount to determine what action, if any, is required. This was noted particularly during the equity market sell-off and the significant volatility associated with the COVID-19 crisis. The Board continues to closely monitor the rating of the Company's shares.

## DIRECTORS' MEETINGS AND ATTENDANCE

The table below shows the Directors' attendance at Board and Committee meetings during the 2020/21 annual Board cycle.

	Number of meetings held	Robert Jennings <sup>1</sup>	Sandra Platts	Jan Pethick <sup>1</sup>	Jon Bridel
Board – scheduled	4	4	4	4	4
Board – ad hoc	8	8	8	8	8
Audit Committee	3	3	3	3	3
Risk Committee	4	4	4	4	4
Nomination Committee	1	1	1	1	1
Remuneration Committee	1	1	1	1	1
Management Engagement Committee	1	1	1	1	1

1. Onshore resident Directors.

The 2020 annual meetings of the Nomination Committee, Remuneration Committee and Management Engagement Committee, and the fourth quarterly Board meeting, usually held at the end of March, fell on 1 April 2020, but were included in the corresponding table in the prior year for completeness, and are therefore excluded from this table.

Kate Thurman and Tim Drayson, the Company's independent consultants, attended a number of Risk Committee and other meetings with the Directors during the year.

## Corporate governance continued

### BOARD COMMITTEES

#### Audit Committee

As at 31 March 2021, the Audit Committee comprised Sandra Platts, Jon Bridel, Jan Pethick and Robert Jennings, and was chaired by Sandra Platts. The Committee meets at least three times a year.

#### Key responsibilities

The key objectives of the Audit Committee include a review of the Financial Statements to ensure they are prepared to a high standard and comply with all relevant legislation and guidelines, where appropriate, and to maintain an effective relationship with the Auditor. The Audit Committee also reviews, considers and, if appropriate, recommends for the purposes of the Company's Financial Statements the valuations prepared by the Investment Manager and Investment Adviser. With respect to the Auditor, the Audit Committee's role will include the assessment of their independence and the effectiveness of the audit, and a review of the Auditor's engagement letter and remuneration and any non-audit services provided by the Auditor. For the principal duties and report of the Audit Committee please refer to pages 58 to 60.

#### Risk Committee

As at 31 March 2021, the Risk Committee comprised Jon Bridel, Robert Jennings, Jan Pethick and Sandra Platts, and was chaired by Jon Bridel. The Committee meets quarterly.

#### Key responsibilities

The principal function of the Risk Committee is to identify, assess, monitor and, where possible, oversee the management of risks to which the Company's investments are exposed, principally to enable the Company to achieve its target investment objective of regular, sustained, long-term distributions over the planned life of the Company, with regular reporting to the Board. As the Company is an externally managed non-EU AIF for the purposes of AIFMD, the Directors have appointed the Investment Manager as AIFM to manage the additional risks faced by the Company as well as the relevant disclosures to be made to investors and regulators.

On 30 January 2015, the Financial Conduct Authority ("FCA") confirmed that the Company was eligible to be marketed via the FCA's National Private Placement Regime and the Company has complied with Articles 22 and 23 of the AIFMD for the year ended 31 March 2021.

The Risk Committee works closely with the Investment Manager and, as required, the independent consultants, and provides oversight of the Company's risk management function. The financial year under review included a high volume of matters being escalated as a result of the market volatility caused by the COVID-19 pandemic. Such activity required extensive liaison between key advisers to assess emerging risks and to agree appropriate mitigating actions. This was particularly evident in the case of the Salt Creek restructuring where considerable resources of the Investment Adviser were committed in order to protect the Company's interests during negotiations and to implement the resulting holding structure.

The Committee welcomes the strong progress made by Anurag Gupta since his appointment as CRO to the Investment Adviser, particularly his notable contributions to the risk management framework and the credit disciplines employed by the Investment Adviser.

#### Nomination Committee

As at 31 March 2021, the Nomination Committee comprised Jon Bridel, Robert Jennings, Jan Pethick and Sandra Platts, and was chaired by Robert Jennings. The Committee meets at least once annually.

#### Key responsibilities

The Committee's key duties include, but are not limited to, reviewing the structure, size and composition of the Board, to consider the succession planning for Directors and senior executives, reviewing the leadership needs of the organisation and identifying candidates for appointment to the Board. Details of the work of the Nomination Committee during the year are set out on pages 56 and 57.

#### Remuneration Committee

As at 31 March 2021, the Remuneration Committee comprised Jon Bridel, Robert Jennings, Jan Pethick and Sandra Platts, and was chaired by Sandra Platts. The Committee meets at least once annually.

#### Key responsibilities

The Committee is responsible for considering the remuneration of the Directors and determining the Company's remuneration policy. In conjunction with the Company's advisers, the Remuneration Committee undertook a detailed review of the Company's remuneration policy. Changes agreed as part of this review provide the Company with a remuneration structure for the forthcoming financial year which better reflects market practice, whilst keeping actual levels of remuneration unchanged. For details of the remuneration of the Directors during the year, please refer to the Directors' remuneration report on page 63.

#### Management Engagement Committee

As at 31 March 2021, the Management Engagement Committee comprised Jon Bridel, Robert Jennings, Jan Pethick and Sandra Platts, and was chaired by Jan Pethick. The Committee meets at least once annually.

#### Key responsibilities

The Committee is responsible for the regular review of the terms of the Investment Advisory and Investment Management Agreements, along with the performance of the Administrator, Investment Adviser and the Investment Manager and the Fund's other key service providers. For the principal duties and report of the Committee please refer to the report of the Management Engagement Committee on pages 61 and 62.



## MANAGEMENT ARRANGEMENTS

### Investment Manager and Investment Adviser

The Directors are responsible for the determination of the Company's investment policy and have overall responsibility for the Company's activities. The Company has entered into an Investment Management Agreement with the Investment Manager with effect from 28 January 2015. On the same date, the Investment Manager, with the consent of the Company, entered into an Investment Advisory Agreement with the Investment Adviser to manage the assets of the Company in accordance with the Company's investment policy. The Investment Adviser is responsible for the day-to-day management of the Company's portfolio and the provision of various other management services to the Company, subject to the overriding supervision of the Directors.

The Directors consider that the interests of Shareholders, as a whole, are best served by the continued appointment of the Investment Manager and the Investment Adviser to achieve the Company's investment objectives.

### Custody arrangements

The Company's assets are held in custody by the Bank of New York Mellon (the "Custodian") pursuant to a Custody Agreement dated 27 February 2015.

The Company's assets are registered in the name of the Custodian within a separate account designation and may not be appropriated by the Custodian for its own account.

The Board conducts an annual review of the custody arrangements as part of its general internal control review and is pleased to confirm that the Company's custody arrangements continue to operate satisfactorily. The Board also monitors the credit rating of the Custodian, to ensure the financial stability of the Custodian is being maintained to acceptable levels. As at 31 March 2021, the long-term credit rating of the Custodian as reported by Standard & Poor's is AA- (2020: AA-), which is deemed to be an acceptable level.

In January 2020 representatives of the Company undertook a due diligence visit to the Custodian's offices in Ireland to meet a number of personnel and review the performance of the Custodian. Subsequently, ongoing monthly calls have been maintained between the Custodian and the Administrator to discuss any performance issues that have arisen.

### Administrator

Administration and Company Secretarial services are provided to the Company by Praxis Fund Services Limited (the "Administrator"). The Administrator also assists the Company with AIFMD, Common Reporting Standard and FATCA reporting.

A summary of the terms of appointment of the Investment Manager, Investment Adviser, Custodian and Administrator, including details of applicable fees and notice of termination periods, is set out in note 10 to the Financial Statements.

## COMPOSITION OF THE BOARD AND INDEPENDENCE OF DIRECTORS

As at 31 March 2021, the Board of Directors comprised four non-executive and independent Directors as set out below. The Company has no executive Directors or any employees. The Chair and all Directors are considered independent of the Investment Adviser, the Investment Manager, the Administrator and Company Secretary. The Directors consider that there are no factors, as set out in the AIC Code, which compromise the Directors' independence and that they all contribute positively to Board effectiveness. The Board reviews the independence of all Directors annually. Robert Jennings was deemed to be independent by the Board prior to his appointment as Chair of the Company. The Directors' biographies are disclosed on pages 46 and 47.

**Robert Jennings is the Chair of the Board and of the Nomination Committee.**

**Jan Pethick is the Chair of the Management Engagement Committee.**

**Jon Bridel is the Chair of the Risk Committee.**

**Sandra Platts is the Senior Independent Director ("SID") and Chair of the Audit Committee and of the Remuneration Committee.**

No Director has a service contract with the Company. The terms of appointment for each non-executive Director are set out in writing between each individual and the Company. The terms of each Director's appointment were formally reviewed, and revised appointment letters were entered into with each non-executive Director in July 2019. Copies of the appointment letters are available for review by Shareholders at the Company's registered office.

## Corporate governance continued

### COMPOSITION OF THE BOARD AND INDEPENDENCE OF DIRECTORS CONTINUED

As Chair, Robert Jennings is responsible for leading the Board of Directors and for ensuring its effectiveness in all aspects of its role. The specific duties of the Chair include setting the Board's agenda, expectations concerning the Company's culture, ensuring the Board has in place effective decision-making processes which are supported by accurate and high-quality information, and demonstrating ethical leadership and promoting the highest standards of integrity, probity and corporate governance throughout the Company. The Board's annual performance evaluation is led by the Chair, with the support from the SID, and it will take action as appropriate based on the results of that evaluation.

Recognising the increased size of the Company, in 2018 the governance arrangements of the Board evolved and changes included the appointment of Sandra Platts as the SID to provide support to the Chair in setting and overseeing the strategic direction of the Board.

The responsibilities of the SID also include being available to Shareholders as an additional point of contact or to communicate any concerns to the Board, and working closely with the Nomination Committee to develop the Board's succession planning and pipeline.

Under the terms of their appointment, all non-executive Directors were subject to re-election at the first AGM. Thereafter, in accordance with the Company's Articles of Incorporation, two Directors shall retire each year and may offer themselves for re-election.

In accordance with the AIC Code, all Directors are subject to re-election annually by Shareholders. The Board has adopted a policy on tenure that it considers appropriate for an investment company. The Board does not consider length of service by itself to be a factor impairing Director independence. However, the Board's tenure and succession policy applied to all non-executive Directors seeks to ensure that the Board remains well balanced and that skills, knowledge and experience of the Board are refreshed at appropriate intervals.

In order to avoid undue disruption from the departure of multiple Directors in the same year, and for reasons of continuity, the Nomination Committee confirmed the Board's approach to an orderly and gradual phasing of its membership whereby the first of the new Directors would be appointed immediately following the 2021 AGM, and two of those Directors appointed at the Company's launch would retire without seeking reappointment no later than at the 2022 AGM.

### BOARD DIVERSITY

The Board supports the recommendations of the Davies Report and notes the recommendations of the Parker Review into ethnic diversity and the Hampton-Alexander Review on gender balance in FTSE leadership. The Board supports the widening of its diversity, whilst ensuring the capabilities, experience and background of each member remain appropriate to the Company and continue to contribute to overall Board effectiveness.

The search process initiated following the Nomination Committee's review of the size, structure and composition of the Board recognised the need to broaden the diversity of the Board.

Following the Board changes expected during 2021, the Board is pleased with its progress in meeting the diversity targets set out in the Parker and Hampton-Alexander Reviews.

## DIRECTORS' PERFORMANCE EVALUATION

The Board has established an informal system for the evaluation of its own performance and that of the Company's individual Directors, which is led by the Chair and, as regards the Chair's performance evaluation, by the SID. It considers this to be appropriate having regard to the non-executive role of the Directors and the significant outsourcing of services by the Company to external providers.

The Directors undertake, on an annual basis, an assessment of the effectiveness of the Board, particularly in relation to its oversight and monitoring of the performance of the Investment Manager, Investment Adviser and other key service providers. The evaluations consider the balance of skills, experience, independence and knowledge of the Company. The Board also evaluates the effectiveness of each of the Directors.

An externally facilitated Board effectiveness review was undertaken by Condign Board Consulting Limited during the year and concluded in December 2020. The review assessed aspects such as the quality of the Board's engagement with the Investment Advisory team concerning investment strategy, and the monitoring of performance; contingency planning for "realistic disaster scenarios" for key assets; climate change risk and ESG reporting; the ongoing cohesiveness of the Board and its key advisers; the structure of the Board and its Committees; its oversight of Shareholder relationships and communications; and issues relating to diversity, transitioning and long-term succession planning. The findings from the independent performance evaluation concluded that the Company maintained high standards of corporate governance practice and, in the context of the Company, the main principles of the AIC Code continued to be applied effectively.

The Board remains cognisant of the need to anticipate and respond to evolving challenges, and therefore the governance framework in place by the Company is subject to regular review to ensure it remains appropriate in the context of the Company. The next externally facilitated Board effectiveness review will be carried out in relation to the financial year ending 31 March 2024.

## INTERNAL CONTROL REVIEW AND RISK MANAGEMENT SYSTEM

The Board of Directors is responsible for putting in place a system of internal controls relevant to the Company and for reviewing the effectiveness of those systems. The review of internal controls is an ongoing process for identifying and evaluating the risks faced by the Company, and which are designed to manage risks rather than eliminate the risk of failure to achieve the Company's objectives.

It is the responsibility of the Board to undertake risk assessment and review of the internal controls in the context of the Company's objectives that cover business strategy, operational, compliance and financial risks facing the Company. These internal controls are implemented by the Company's four main service providers: the Investment Adviser, the Investment Manager, the Administrator and the Custodian. The Board receives periodic updates from these main service providers at the quarterly Board meetings of the Company. The Board is satisfied that each service provider has effective systems in place to control the risks associated with the services that they are contracted to provide to the Company and are therefore satisfied with the internal controls of the Company.

The Board of Directors considers the arrangements for the provision of Investment Advisory, Investment Management, Administration and Custody services to the Company on an ongoing basis and a formal review is conducted annually. As part of this review the Board considered the quality of the personnel assigned to handle the Company's affairs, the investment process and the results achieved to date.

## DIRECTORS' REMUNERATION

It is the responsibility of the Remuneration Committee to debate and make recommendations to the Board in relation to the Directors' remuneration, having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities and the time committed to the Company's affairs. No Director who is a member of the Committee takes part in discussions relating to their own remuneration. The Directors periodically benchmark the remuneration policy of the Company against comparable information on listed investment companies, particularly those operating in similar or adjacent market sectors, in addition to giving due regard to the individual circumstances of the Company which may warrant a departure from industry norms.

No Director has a service contract with the Company and details of the Directors' remuneration, and changes thereto reflecting the increased time commitment required of the Board, can be found in the Directors' remuneration report on page 63.

## DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company maintains insurance in respect of directors' and officers' liability in relation to the Directors' actions on behalf of the Company.

## Report of the Nomination Committee



The Committee has had a very active year and we have significantly progressed our succession planning.

**ROBERT JENNINGS**

Nomination Committee Chair

The Company has established a Nomination Committee from the non-executive Directors of the Company. The Nomination Committee, chaired by Robert Jennings, operates within clearly defined terms of reference which are considered and are then referred to the Board for approval. A copy of the terms of reference is available on the Company's website or upon request from the Company Secretary.

The main roles and responsibilities of the Nomination Committee are to:

- regularly review the structure, size and composition of the Board and make recommendations to the Board with regard to any changes, based on merit and objective criteria (including skills, knowledge and experience, and promoting diversity of gender, social and ethnic backgrounds, cognitive and personal strengths);

- give full consideration to succession planning for Directors, ensuring effective plans are in place for orderly succession to the Board and to oversee the development of a diverse pipeline for succession, taking into account the challenges and opportunities facing the Company; and
- lead the process for appointments and be responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The Nomination Committee reports formally to the Board on its proceedings on all matters within its duties and responsibilities and on how it has discharged its responsibilities. The Committee meets at least once per year and at such other times as the Nomination Committee Chair shall require. Other Directors and third parties may be invited by the Nomination Committee to attend meetings as and when appropriate.

The Nomination Committee met twice during the financial year and once following the year end. The principal matters considered at these meetings included, but were not limited to:

- the findings of the Board evaluation concerning the size, structure and composition of the Board and the appropriateness of the current mix of skills, knowledge and experience for its current activities;
- how effectively members of the Board work together to achieve their objectives;
- the Company's policy on diversity, ensuring this remained aligned with the Company's strategy and objectives;
- Director succession planning, with reference to the Board's skills matrix and giving full consideration to the expected future leadership needs of the Company;
- the time requirements and independence of Directors; and
- consideration and agreement of the terms of reference of the Nomination Committee for approval by the Board.



During the year, the Committee undertook a review of the size, structure, composition and effectiveness of the Board, and concluded that the incumbent Board continued to operate effectively, but recognised that there was a need to broaden the diversity of the Board. The Committee also concluded that there was merit in seeking to enlarge the Board, and so in February 2021, Sapphire Partners Limited ("Sapphire") were engaged to undertake a search process to identify potential candidates for Board succession. Broad candidate specifications were provided to Sapphire noting the relevant skills, backgrounds and personal attributes determined by the Nomination Committee as desirable for any prospective Board candidate.

The Committee was pleased by the list of very high calibre candidates produced from this process and is delighted to announce the appointment of Sarika Patel to the Board with effect from the conclusion of the Company's AGM on 4 August 2021. Ms Patel's biography can be found on page 47.

The Nomination Committee continues to maintain and develop the Board's succession planning arrangements to ensure the arrangements remain effective, and that a diverse pipeline for succession is maintained which remains aligned with the Company's strategy and future leadership needs.

Sapphire has no other connection with the Company.

## **ROBERT JENNINGS**

**Nomination Committee Chair**

5 July 2021

# Report of the Audit Committee



I am pleased to present the Company's Audit Committee report.

**SANDRA PLATTS**  
Audit Committee Chair

The Company has established an Audit Committee with formally delegated duties and responsibilities within written terms of reference (which are available from the Company Secretary).

## CHAIR AND MEMBERSHIP

As at 31 March 2021, the Audit Committee comprised Jon Bridel, Robert Jennings, Jan Pethick and Sandra Platts, and was chaired by Sandra Platts. The Board believes that it is appropriate for the Chair of the Company to be a member of the Audit Committee as it feels that his professional experience as a practising qualified Chartered Accountant and the breadth of his financial experience is of great value to the work of the Committee in the discharge of its responsibilities. All members of the Committee are independent Directors; have no present links with KPMG Channel Islands Limited, the Company's Auditor (the "Auditor" or "KPMG"); and are independent of the Investment Manager and Investment Adviser. The membership of the Audit Committee and its terms of reference are kept under review. The relevant qualifications and experience of each member of the Audit Committee are detailed on pages 46 and 47. The Audit Committee's intention is to meet three times a year in any full year and to meet with the Auditor as appropriate.

## DUTIES

The Audit Committee's main role and responsibility is to provide advice to the Board on whether the Annual Report and Audited Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy. The Audit Committee gives full consideration and recommendation to the Board for the approval of the contents of the Interim and Annual Financial Statements of the Company, which includes reviewing the Auditor's report.

The other principal duties of the Committee are to consider the appointment of the Auditor; to discuss and agree with the Auditor the nature and scope of the audit; to keep under review the scope, results and effectiveness of the audit and the independence and objectivity of the Auditor; and to review the Auditor's letter of engagement, planning report for the financial period and management letter, as applicable.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of the Company's internal control and risk management systems. The Audit Committee also focuses particularly on compliance with legal requirements, accounting standards and the relevant Listing Rules and ensuring that an effective system of internal financial control is maintained.

The Audit Committee also reviews, considers and, if appropriate, recommends for the purposes of the Company's Financial Statements the valuations prepared by the Investment Manager and Investment Adviser. These valuations are the most critical element in the Company's Financial Statements and the Audit Committee considers them carefully.

## FINANCIAL REPORTING AND AUDIT

The Audit Committee has an active involvement and oversight in the preparation of both the interim and annual Financial Statements and in doing so is responsible for the identification and monitoring of the principal risks associated with the preparation of the Financial Statements. The principal risk identified in the preparation of these Financial Statements is the valuation of the Company's investment in Sequoia IDF Asset Holdings S.A., its subsidiary company (the "Subsidiary"), which holds all of the underlying investments.

The Company's investment in the Subsidiary had a fair value of £1,730,455,551 as at 31 March 2021 (2020: £1,551,492,432), representing a substantial proportion of the net assets of the Company, and as such is the biggest factor in relation to the accuracy of the Financial Statements. PwC was engaged as Valuation Agent throughout the year and was responsible for carrying out a fair market valuation review of the Subsidiary's investments on a monthly basis.

Draft pricing for the Subsidiary's investments is provided by the Investment Adviser to the Valuation Agent, who in turn produces a final valuation report for review by the Investment Adviser and the Investment Manager. Final responsibility for the valuation of the Subsidiary's investments, subject to Board approval, rests with the Investment Manager. This report is then submitted to TMF Luxembourg S.A. (the "Sub-Administrator"), for inclusion in the Subsidiary's NAV.

The Audit Committee has regular dialogue with the Investment Manager and Investment Adviser regarding the methods of valuation used. It reviews and may challenge their methodologies, controls and processes of valuation used to value the Subsidiary's investments. The Audit Committee regularly reviews the valuations prepared by the Investment Adviser for investments where market prices are not readily available. At the year end these represented 74.6% (2020: 77.9%) of total investments. Where appropriate, these valuations are scrutinised and compared against valuations of investments with similar characteristics or subject to a sensitivity analysis based on changes in key assumptions. The Audit Committee has also considered the Auditor's approach to their audit of the valuation of the Subsidiary's investments and discussed with the Auditor their approach to testing the appropriateness and robustness of the valuation methodologies applied. The Auditor has not reported any significant differences between the valuations used and the results of the work performed during their testing process.

Based on the review and analysis described above, the Audit Committee is satisfied that, as at 31 March 2021, the fair values of the Subsidiary's investments, including any ongoing effects of the market disruption caused by COVID-19, are reasonable. As a result, the Audit Committee is satisfied that as at 31 March 2021, as stated in the Financial Statements, the fair value of the Company's investment in the Subsidiary is reasonable.

The Audit Committee reviewed the Company's accounting policies applied in the preparation of the annual Financial Statements, together with the relevant critical judgements, estimates and assumptions made by the Board and, having discussed matters with the Auditor, determined that these were in compliance with International Financial Reporting Standards ("IFRS") as issued by the IASB and were reasonable. The Audit Committee reviewed the materiality levels applied by the Auditor to the Financial Statements as a whole and was satisfied that these materiality levels were appropriate. The Auditor reports to the Audit Committee all material corrected and uncorrected differences. The Auditor explained the results of their audit and that on the basis of their audit work, there were no adjustments proposed that were material in the context of the Financial Statements as a whole.

The Audit Committee also reviews the Company's financial reports as a whole to ensure that such reports appropriately describe the Company's activities and that all statements contained in such reports are consistent with the Company's financial results and projections. Accordingly, the Audit Committee was able to advise the Board that the Annual Report and Audited Financial Statements are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy.

## EXTERNAL AUDITOR

The Audit Committee has responsibility for making a recommendation on the appointment, reappointment or removal of the Auditor. KPMG was appointed as the first Auditor of the Company. During the year, the Audit Committee received and reviewed the audit plan and report from the Auditor.

To assess the effectiveness of the Auditor, the Audit Committee reviewed:

- the Auditor's fulfilment of the agreed audit plan and variations from it, if any;
- the Auditor's assessment of its objectivity and independence as auditor of the Company;
- the Auditor's report to the Audit Committee highlighting their significant areas of focus in the conduct of their audit and findings thereon that arose during the course of the audit; and
- feedback from the Investment Manager, Investment Adviser and Administrator evaluating the performance of the audit team.

For the year ended 31 March 2021, the Audit Committee was satisfied that there had been appropriate focus and challenge on the primary areas of audit risk and assessed the quality of the audit process as good.

# Report of the Audit Committee continued

## EXTERNAL AUDITOR CONTINUED

Where non-audit services are to be provided to the Company by the Auditor, full consideration of the financial and other implications on the independence of the Auditor arising from any such engagement will be considered before proceeding. All non-audit services are pre-approved by the Audit Committee if it is satisfied that relevant safeguards are in place to protect the Auditor's objectivity and independence.

The Audit Committee notes that the prior financial year marked KPMG's fifth year holding office as external Auditor. In line with the rotation requirements, the Company's lead audit partner has changed for the year ended 31 March 2021.

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

- a report from the Auditor describing its arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the Auditor.

During the year ended 31 March 2021, the only non-audit services provided by KPMG were in relation to the interim review and an assurance report on the Company's ESG scoring framework.

The following table summarises the remuneration paid to KPMG and to other KPMG member firms for audit and non-audit services.

	For the year ended 31 March 2021 £	For the year ended 31 March 2020 £
Annual audit of the Company	149,100	133,000
Interim review of the Company	29,500	28,000
Annual audit of the Subsidiary	31,380	32,600
ESG review of the Company	38,000	—

## INTERNAL CONTROLS

As the Company's investment objective is to invest all of its assets into the Subsidiary, the Audit Committee, after consultation with the Investment Manager, Investment Adviser and Auditor, considers the key risk of misstatement in its Financial Statements to be the valuation of its investment in the Subsidiary, but are also mindful of the risk of the override of controls by its service providers, the Investment Manager, the Investment Adviser, the Administrator and the Sub-Administrator.

The Investment Manager, Investment Adviser and Administrator together maintain a system of internal control on which they report to the Board. The Board has reviewed the need for an internal audit function and has decided that the systems and procedures employed by the Investment Manager, Investment Adviser and Administrator 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.

The Audit Committee is responsible for reviewing and monitoring the effectiveness of the internal financial control systems and risk management systems on which the Company is reliant. These systems are designed to ensure proper accounting records are maintained, that the financial information on which business decisions are made and which is used in publications is reliable, and that the assets of the Company are safeguarded. Such a system of internal financial controls can only provide reasonable and not absolute assurance against misstatement or loss.

In accordance with the guidance on risk management, internal control and financial and business reporting published by the Financial Reporting Council (the "FRC") in September 2014, which integrated the earlier guidance of the Turnbull Report, the Audit Committee has reviewed the Company's internal control procedures.

These internal controls are implemented by the Company's four main service providers: the Investment Manager, the Investment Adviser, the Administrator and the Custodian. The Audit Committee has performed reviews of the internal financial control systems and risk management systems during the year. The Audit Committee is satisfied with the internal financial control systems of the Company.

**SANDRA PLATTS**  
Audit Committee Chair

5 July 2021



# Report of the Management Engagement Committee



I am pleased to present the Company's Management Engagement Committee report.

## JAN PETHICK

Management Engagement Committee Chair

The Company has established a Management Engagement Committee with formally delegated duties and responsibilities within written terms of reference (which are available from the Company's website).

### CHAIR AND MEMBERSHIP

As at 31 March 2021, the Management Engagement Committee comprised Jon Bridel, Robert Jennings, Jan Pethick and Sandra Platts, and was chaired by Jan Pethick. The Committee meets at least once a year.

The Committee is responsible for the regular review of the terms of the Investment Advisory and Investment Management Agreements, along with the performance of the Administrator, Investment Adviser and the Investment Manager and the Fund's other key service providers. The membership of the Committee and its terms of reference are kept under review.

### DUTIES

Through the Committee, the Directors continually monitor the performance and the continued appointment of all key service providers and a formal, detailed assessment of the performance and the terms of engagement of the Company's key service providers is undertaken on at least an annual basis to ensure each remains fair and reasonable. This annual review process includes two-way feedback, which provides the Board with an opportunity to understand the views, experiences and any significant issues encountered by service providers during the year. In addition, the Management Engagement Committee is actively involved in reviewing the contractual relationship with the Investment Adviser, scrutinising their performance and ensuring the contractual terms remain aligned with the objectives of the Company and the interests of Shareholders. This includes reviewing the overall basis of remuneration for the Investment Adviser, particularly to ensure it does not encourage excessive risk taking, but rewards demonstrable superior performance and continues to motivate and incentivise the level of performance expected of the Investment Adviser.

The Directors recognise the importance of maintaining strong and effective business relationships with the Company's operational counterparties and that high quality interaction with these stakeholders is an important success factor for delivering the Board's strategy. The annual performance assessment conducted by the Management Engagement Committee seeks to ensure that:

- the terms of engagement remain fair and reasonable and reflective of the services performed in the context of the nature, scale and complexity of the Company;
- strong congruence exists between the objectives of the counterparty and those of the Company;
- they have not been the subject of any adverse event which may present additional risk to the Company;
- they remain appropriately incentivised to perform their duties to a high standard; and
- their continued engagement remains in the best interests of the Company as a whole.

# Report of the Management Engagement Committee continued

## MAIN ACTIVITIES DURING THE YEAR

Although the investment portfolio demonstrated exceptional resilience during the pandemic-related market volatility, ensuring the employment of effective and robust borrower monitoring and credit oversight procedures remained crucial in anticipating and mitigating the impact of credit events to the Investment Adviser's resource. As reported in the last Annual Report, following the last financial year end a redirection of resources from origination to enhanced credit and portfolio monitoring was instigated by the Board and, whilst environmental conditions during the current year supported the resumption of new loan origination, key focus areas for the Management Engagement Committee during the year included:

- reviewing the role and ongoing integration of the CRO, with a particular focus on ensuring independence from the loan origination and monitoring processes and ensuring direct channels of communication are in place with the Directors and the Investment Manager;
- reviewing the resource monitoring processes in place by the Investment Adviser and the systems in place to manage capacity against existing credits, the business development pipeline and resource contingency planning; and
- reviewing the Investment Adviser's recruitment and staffing strategy.

The Committee is pleased by the progress made by the Investment Adviser in securing several new high-calibre hires and the continued strengthening and development of the risk management function since Mr Gupta's appointment as CRO. Whilst the resource available to the Investment Adviser remains a key area of focus, the Management Engagement Committee is confident that the disciplines developed during their recent growth stage will support the Investment Adviser's management frameworks as their business achieves greater scale.

We were also particularly impressed by the commitment demonstrated by the Investment Adviser to furthering the Board's aspirations towards carbon neutrality and their comprehensive implementation of the Company's ESG policy throughout the investment portfolio. In promoting the Company's strategic position on climate change the Management Engagement Committee was pleased to receive responses to the Company's carbon enquiry letters issued in early 2021 confirming that the majority of the Company's key suppliers were either actively measuring and taking steps to reduce their Scope 1, Scope 2 and Scope 3 emissions, or were advanced on their journey towards designing a carbon reduction framework.

## SERVICE PROVIDER PERFORMANCE ASSESSMENT

During the Management Engagement Committee's annual performance evaluation of all key service providers in March 2021, additional feedback was received on the quality of service and the effectiveness of the working relationships with each supplier. No material actions arose as a result of the review.

Recognising the supplementary guidance issued by the AIC in 2019 which suggested various measures by which investment companies may assess the relationship with portfolio managers, the service provider performance appraisal process undertaken in March 2021 included an enhanced qualitative assessment of the performance and contractual relationship with Sequoia Investment Management Company Limited. The feedback from this assessment reaffirmed the view that the Investment Adviser was highly experienced in the markets relevant to the Company's activities, the contractual terms were reflective of market practice and there existed a high level of congruence between the duties of the Investment Adviser and the objectives of the Company.

The Management Engagement Committee remains satisfied with the overall level of performance of the Investment Adviser, noting the successful fundraising in March 2021, where £110 million was raised in challenging conditions for deployment into further opportunities identified by the Investment Adviser. Currently, the Board does not consider it necessary to obtain an independent appraisal of the Investment Adviser's services and the continued retention of the Investment Adviser's services is considered to be in Shareholders' best interests.

**JAN PETHICK**  
Management Engagement  
Committee Chair

5 July 2021

## Remuneration

## Directors' remuneration report



Directors' remuneration will remain unchanged for the year ended 31 March 2022.

**SANDRA PLATTS**

Remuneration Committee Chair

The Company's policy in regard to Directors' remuneration is to ensure that the Company maintains a transparent and competitive fee structure in order to recruit, retain and motivate non-executive Directors of excellent quality in the overall interests of Shareholders and the long-term success of the Company.

No element of the Directors' remuneration is performance related, nor does any Director have any entitlement to pensions, share options or any long-term incentive plans from the Company.

The Directors received the following remuneration in the form of Directors' fees:

	Year ended 31 March 2021 Actual £	Year ended 31 March 2020 Actual £
Robert Jennings (Chairman of the Board and the Nomination Committee)	75,000	72,800
Jan Pethick (Chair of the Management Engagement Committee)	54,300	57,300
Jon Bridel (Chair of the Risk Committee)	54,300	57,300
Sandra Platts (Chair of the Audit and Remuneration Committees)	62,000	62,300
<b>Total</b>	<b>245,600</b>	<b>249,700</b>

The remuneration policy set out above is the one applied for the year ended 31 March 2021. The prior year figures stated above include a listing fee of £6,000 receivable by each Director in connection with the Open Offer, Ordinary Share Placing and Offer for Subscription on 27 June 2019; however, thenceforth the Directors determined that they would forego such fees, as a result of which no such fees were paid in respect of the capital raises which took place in March 2020 or March 2021.

In March 2021, the Directors determined that their total remuneration for the year ended 31 March 2022 should remain unchanged, although there were certain changes to the structuring of the remuneration package (see note 10).

Directors' and officers' liability insurance cover is maintained by the Company on behalf of the Directors.

The Directors were appointed as non-executive Directors by letters issued on 6 January 2015, and subsequently revised on 1 July 2019. Each Director's appointment letter provides that, upon the termination of their appointment, they must resign in writing and all records remain the property of the Company. The Directors' appointments can be terminated in accordance with the Articles and without compensation. The notice period for the removal of Directors is two months, as specified in the Director's appointment letter. The Articles provide that the office of a Director shall be terminated by, among other things: (a) written resignation; (b) unauthorised absences from Board meetings for 12 months or more; (c) unanimous written request of the other Directors; and (d) an ordinary resolution of the Company.

Under the terms of their appointment, each Director was subject to re-election at the first AGM and annually thereafter. The Company may terminate the appointment of a Director immediately on serving written notice and no compensation is payable upon termination of office as a Director of the Company becoming effective.

The amounts payable to Directors as at 31 March 2021 are shown in note 10 to the Financial Statements and related to services provided as non-executive Directors. No Director has a service contract with the Company, nor are any such contracts proposed.

**SANDRA PLATTS**

Remuneration Committee Chair

5 July 2021

# Directors' report

The Directors of Sequoia Economic Infrastructure Income Fund Limited (the "Company") are pleased to submit their Annual Report and the Audited Financial Statements (the "Financial Statements") for the year ended 31 March 2021.

## RESULTS AND DIVIDENDS

The results for the year are shown in the Statement of Comprehensive Income on page 72.

The Directors have declared and paid dividends of £103,483,330 during the year ended 31 March 2021 (2020: £78,947,224). Further details of dividends declared or paid are detailed in note 4 to the Financial Statements.

The Company's dividend policy, in the absence of any significant restricting factors, is to pay dividends totalling 6.25p per Ordinary Share per annum for the foreseeable future. This policy was reaffirmed by the Company on 19 April 2021 for the financial year ended 31 March 2022. The Company pays dividends on a quarterly basis.

## INDEPENDENT AUDITOR

KPMG Channel Islands Limited was appointed as Auditor on 28 January 2015. A resolution to reappoint KPMG Channel Islands Limited as Auditor will be put to the forthcoming AGM.

## DIRECTORS AND DIRECTORS' INTERESTS

The Directors who served during the year, all of whom are independent and non-executive, are listed on pages 46 and 47.

None of the Directors has a service contract with the Company and no such contracts are proposed. During the year, Robert Jennings received a fee of £75,000 per annum (2020: £66,800) for his services as Chair of the Board of Directors. The remaining Directors each received a fee of £44,300 (2020: £44,300) per annum for their services as Directors.

Jan Pethick, Jon Bridel and Sandra Platts are also each entitled to a fee of £10,000 per annum (2020: £7,000) in respect of their roles as Chair of the Management Engagement Committee, Chair of the Risk Committee and Chair of the Audit and Remuneration Committees respectively.

Sandra Platts is entitled to an additional fee of £7,700 per annum (2020: £5,000) for serving as the Senior Independent Director.

For further information related to Directors' remuneration, please refer to the Directors' remuneration report on page 63.

As at 31 March 2021, the Directors had the following interests in the shares of the Company:

Name	Number of Ordinary Shares	Percentage of Ordinary Shares in issue
Robert Jennings (Chairman) (with other members of his family)	242,666	0.01%
Jan Pethick (with his spouse)	263,820	0.01%
Jon Bridel (with his spouse)	10,452	0.00%
Sandra Platts (in a family RATS)	26,776	0.00%

## SUBSTANTIAL SHAREHOLDINGS

As at 31 March 2021, the Company had the following shareholdings in excess of 5% of the issued share capital:

Name	Number of Ordinary Shares	Percentage
Investec Wealth & Investment	136,558,002	7.75%
Rathbones	88,652,770	5.03%

## RELATED PARTIES

Details of transactions with related parties are disclosed in note 10 to the Financial Statements.

## LISTING REQUIREMENTS

Since its listing on the Main Market of the London Stock Exchange and admission to the premium segment of the Official List of the UK Listing Authority, the Company has complied with the Prospectus Rules, the Disclosure Guidance and Transparency Rules ("DTR") and the European Union's Market Abuse Regulation (as implemented in the UK through the Financial Services and Markets Act 2000 (Market Abuse) Regulations 2016).



## FOREIGN ACCOUNT TAX COMPLIANCE ACT

The Foreign Account Tax Compliance Act ("FATCA") became effective on 1 January 2013. The legislation is aimed at determining the ownership of US assets in foreign accounts and improving US tax compliance with respect to those assets. On 13 December 2013, the States of Guernsey entered into an intergovernmental agreement ("IGA") with US Treasury, in order to facilitate the requirements of FATCA. The Company registered with the Internal Revenue Service ("IRS") on 25 February 2015 as a Foreign Financial Institution ("FFI") and a Sponsoring Entity.

## COMMON REPORTING STANDARD

The Common Reporting Standard ("CRS"), formerly the Standard for Automatic Exchange of Financial Account Information, became effective on 1 January 2016, and is an information standard for the automatic exchange of information developed by the Organisation for Economic Co-operation and Development ("OECD"). CRS is a measure to counter tax evasion, and it builds upon other information-sharing legislation, such as FATCA and the European Union Savings Directive, and has superseded the UK-Guernsey IGA for the Automatic Exchange of Information with effect from 1 January 2016. The first reporting under CRS for Guernsey was made during 2017.

## ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE

The Company is categorised as a non-EU Alternative Investment Fund ("AIF"). The AIFMD seeks to regulate managers of AIFs, such as the Company. It imposes obligations on AIFMs who manage AIFs in a member state of the European Economic Area ("EEA state"), or who market shares in AIFs to investors who are domiciled, or with a registered office, in an EEA state. Under the AIFMD, an AIFM must be appointed and must comply with various organisational, operational and transparency requirements.

On 28 January 2015, the Company appointed the Investment Manager to act as AIFM on behalf of the Company. The Investment Manager is responsible for fulfilling the role of the AIFM and ensuring the Company complies with the AIFMD requirements. Details of the total amount of remuneration for the financial year, split into fixed and variable remuneration, paid by the AIFM to its staff, and the number of beneficiaries, are made available to Shareholders on request to the Investment Manager.

## SHARE BUY-BACKS

When appropriate, the Directors will consider the acquisitions of Ordinary Shares as part of its discount control policy, in order to address possible imbalances in the demand and supply of Ordinary Shares in the market. This could include when the Company's Ordinary Shares have traded at a significant discount to NAV for a prolonged period of time. Conversely, shorter periods of market disruption may also create an imbalance in the demand and supply of Ordinary Shares in the market, and the Company may consider the use of share buy-backs to signal the confidence it has in the value of its underlying assets.

In advance of any share buy-backs, the Board will consider: (i) whether the Company is technically able to repurchase its own shares at that point in time (including closed period and regulatory considerations); (ii) the Company's available cash resources after supporting the dividend; (iii) the Board's view of the prevailing value of the Fund's net assets; and (iv) other relevant circumstances.

Purchases will only be made through the market for cash at prices below the estimated prevailing net asset value per Ordinary Share where the Directors believe such purchases will result in an increase in the NAV per Ordinary Share.

## ANTI-BRIBERY AND CORRUPTION

The Board acknowledges that the Company's international operations may give rise to possible claims of bribery and corruption. In consideration of The Bribery Act 2010, enacted in the UK, at the date of this report the Board had conducted an assessment of the perceived risks to the Company arising from bribery and corruption to identify aspects of business which may be improved to mitigate such risks. The Board has adopted a zero-tolerance policy towards bribery and has reiterated its commitment to carry out business fairly, honestly and openly.

## CRIMINAL FINANCES ACT

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

## UK MODERN SLAVERY ACT

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

By order of the Board

## SANDRA PLATTS

Director

5 July 2021

# Statement of Directors' responsibilities

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

The Companies (Guernsey) Law, 2008 (the "Company law") requires the Directors to prepare financial statements for each financial year. The Directors have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB and applicable law.

Under the Company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and its profit or loss for that year.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting, unless they either intend to liquidate the Company or cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper 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 to enable them to ensure that the Financial Statements comply with the Company law. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

The Directors who hold office at the date of approval of the Directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's Auditor is unaware, and that each Director has taken all the steps they ought to have taken as a director to make themselves aware of any relevant audit information and for establishing that the Company's Auditor is aware of that information.

## RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT

Each of the Directors, who are listed on pages 46 and 47, confirms to the best of their knowledge and belief that:

- the Financial Statements, prepared in accordance with IFRS as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Company, as required by DTR 4.1.12R; and
- the Management Report (comprising the Chair's statement, the Investment Adviser's report, the Sustainability report, other sections of the Strategic report, the Directors' report and other Committee reports) includes a fair review of the development and performance of the business during the year, and the position of the Company at the end of the year, together with a description of the principal risks and uncertainties that the Company faces, as required by DTR 4.1.8R and DTR 4.1.9R.

The Directors consider that the Annual Report, comprising the Financial Statements and the Management Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position and performance, business model and strategy.

## SANDRA PLATTS

Director

5 July 2021

# Independent Auditor's report

## to the members of Sequoia Economic Infrastructure Income Fund Limited

### 1. OUR OPINION IS UNMODIFIED

We have audited the financial statements of Sequoia Economic Infrastructure Income Fund Limited (the "Company"), which comprise the statement of financial position as at 31 March 2021, the statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

### In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of Company as at 31 March 2021, and of the Company's financial performance and cash flows for the year then ended;
- are prepared in accordance with International Financial Reporting Standards ("IFRS"); and
- comply with the Companies (Guernsey) Law, 2008.


### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including FRC Ethical Standards, as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

#### Overview

**Materiality:** £36.4m (2020: £29.3m)  
financial statements as a whole Approximately 2% (2020: 2%) of net assets

#### Key audit matter vs 2020

**Recurring risks** Valuation of investments 

### 2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including 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. In arriving at our audit opinion above, the key audit matter was as follows (unchanged from 2020):

The risk	Our response
<p><b>Valuation of non-derivative financial assets at fair value through profit or loss</b></p> <p>£1,730,455,551; (2020 £1,551,492,432)</p> <p>Refer to the Report of the Audit Committee on pages 58 and 59, Note 2 (non-derivative financial instruments – fair value and subsequent measurement), Note 3 (use of judgements and estimates), Note 5 (financial risk management) and Note 6 (non-derivative financial assets at fair value through profit or loss)</p>	<p><b>Basis:</b></p> <p>The Company's investment in Sequoia IDF Asset Holdings S.A. (the "Subsidiary") is carried at fair value through profit or loss and represents a significant proportion of the Company's net assets. The fair value of the Subsidiary reflects its net asset value, the most significant component of which is its underlying portfolio of senior and subordinated economic infrastructure debt and equity investments valued at £1,715m (2020: £1,532m), namely loans with a fair value of £1,588m (2020: £1,426m) (the "Loans"), bonds with a fair value of £114m (2020: £106m) (the "Bonds") and unlisted equity with a fair value of £13m (2020: £Nil) (the "Unlisted Equity") (together, the "Portfolio").</p> <p>The Loans and the Bonds are primarily valued using market prices obtained from third party broker quotes and pricing from syndicate desks. Where such market information is not externally available, the valuations are based on yields derived from comparable loans and bonds taking into consideration the instrument's project type and structural and credit characteristics.</p> <p>The Unlisted Equity is fair valued principally on a discounted cash flow basis.</p> <p>The Company engages a third party valuation expert (the "Valuation Agent") to perform a fair market valuation review of the Portfolio.</p>
	<p>Our audit procedures included, but were not limited to:</p> <p><b>Internal controls</b></p> <p>We evaluated the design and implementation of the key controls over the valuation of the Portfolio.</p> <p><b>Assessing fair value of the investment in the Subsidiary</b></p> <p>For the investment into the Subsidiary:</p> <ul style="list-style-type: none"> <li>• We assessed whether the 31 March 2021 net asset value of the Subsidiary was representative of fair value; and</li> <li>• We agreed significant inputs of the Subsidiary's 31 March 2021 net asset value to supporting documentation.</li> </ul> <p><b>Assessing fair value of the Portfolio</b></p> <p>With the support of our KPMG valuation specialists:</p> <ul style="list-style-type: none"> <li>• We assessed the objectivity, capabilities and competence of the Valuation Agent engaged by the Company;</li> <li>• We assessed the scope of the Valuation Agent's review of the Portfolio and read their report;</li> <li>• We assessed the appropriateness of the valuation approach and methodology applied to the Portfolio;</li> <li>• We held discussions with Sequoia Investment Management Company Limited (the "Investment Adviser") in relation to the Portfolio to identify credit and operational issues, if any, that may impact on the valuation of the Portfolio; and</li> <li>• For 99.2% by fair value of the Portfolio, our KPMG valuation specialists either independently obtained prices from pricing vendors or, where this pricing information was not available, derived an independent mark to model valuation based on market inputs for comparable instruments with similar structural and credit characteristics.</li> </ul>

# Independent Auditor's report continued

## to the members of Sequoia Economic Infrastructure Income Fund Limited

### 2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

The risk	Our response
<p><b>Valuation of non-derivative financial assets at fair value through profit or loss</b> <i>continued</i></p> <p>£1,730,455,551; (2020 £1,551,492,432)</p> <p>Refer to the Report of the Audit Committee on pages 58 and 59, Note 2 (non-derivative financial instruments – fair value and subsequent measurement), Note 3 (use of judgements and estimates), Note 5 (financial risk management) and Note 6 (non-derivative financial assets at fair value through profit or loss)</p>	<p><b>Assessing fair value of the Portfolio</b> <i>continued</i></p> <p>For a risk-based selection of the Loans:</p> <ul style="list-style-type: none"> <li>• We agreed key contractual terms such as coupon and repayment terms to supporting documentation;</li> <li>• We compared all expected loan interest receipts versus actual cash flows and evaluated the Investment Adviser's credit memorandums, to assess whether there had been any specific credit events which would impact their fair value; and</li> <li>• We performed research to publicly available information for contradictory evidence.</li> </ul> <p><b>Assessing disclosures:</b></p> <p>We also considered the Company's disclosures (see Note 3) in relation to the use of estimates and judgements in determining the fair value of the Portfolio and the Company's valuation policies adopted in Note 2 and financial risk management and fair value disclosures in Note 5 and Note 6 respectively for compliance with IFRS.</p>

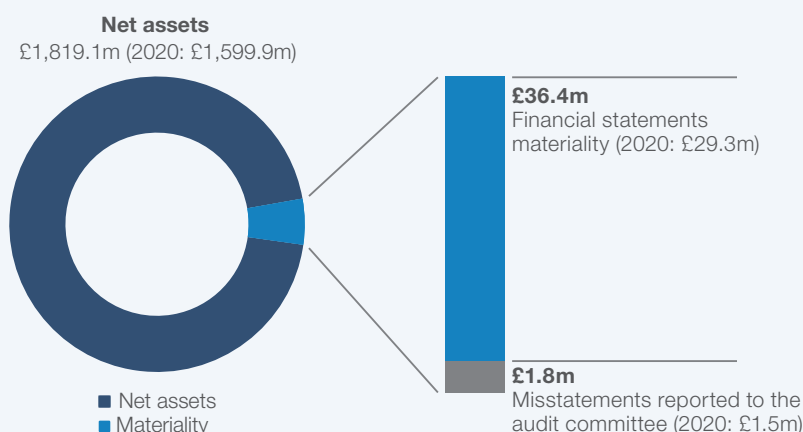
### 3. OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality for the financial statements as a whole was set at £36.4m, determined with reference to a benchmark of net assets of £1,819.1m, of which it represents approximately 2.0% (2020: 2.0%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality for the Company was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £27.3m. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.8m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above, which has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.





#### 4. GOING CONCERN

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements (the "going concern period").

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to affect the Company's financial resources or ability to continue operations over this period were:

- availability of capital to meet operating costs and other financial commitments; and
- the outcome of the upcoming continuation vote.

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Company's financial forecasts.

We also considered the risk that the outcome of the continuation vote could affect the Company over the going concern period, by considering outcomes of previous votes held by the Company, reviewing correspondence between the Company and Jefferies International Limited (the "Broker"), and considering key financial metrics including the Company's recent capital raise and the Company's share price against its reported net asset value per share.

We considered whether the going concern disclosure in Note 2 to the financial statements gives a full and accurate description of the Directors' assessment of going concern.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we have nothing material to add or draw attention to in relation to the Directors' statement in the notes to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for the going concern period, and that statement is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

#### 5. FRAUD AND BREACHES OF LAWS AND REGULATIONS – ABILITY TO DETECT

##### Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of management as to the Company's policies and procedures to prevent and detect fraud as well as enquiring whether management have knowledge of any actual, suspected or alleged fraud;
- reading minutes of meetings of those charged with governance; and
- using analytical procedures to identify any unusual or unexpected relationships.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the Company's revenue streams are simple in nature with respect to accounting policy choice, and are easily verifiable to external data sources or agreements with little or no requirement for estimation from management. We did not identify any additional fraud risks.

We performed procedures including:

- identifying journal entries and other adjustments to test based on risk criteria and comparing any identified entries to supporting documentation; and
- incorporating an element of unpredictability in our audit procedures.

##### Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence, if any, and discussed with management the policies and procedures regarding compliance with laws and regulations. As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

# Independent Auditor's report continued

## to the members of Sequoia Economic Infrastructure Income Fund Limited

### 5. FRAUD AND BREACHES OF LAWS AND REGULATIONS – ABILITY TO DETECT CONTINUED

#### Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

The Company is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or impacts on the Company's ability to operate. We identified financial services regulation as being the area most likely to have such an effect, recognising the regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

#### Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

### 6. OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### 7. DISCLOSURES OF EMERGING AND PRINCIPAL RISKS AND LONGER TERM VIABILITY

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge. We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability Statement (pages 43 and 44) that they have carried out a robust assessment of the emerging and principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the emerging and principal risks disclosures describing these risks and explaining how they are being managed or mitigated;
- the Directors' explanation in the Viability Statement (pages 43 and 44) as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability Statement, set out on pages 43 and 44 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

## 8. CORPORATE GOVERNANCE DISCLOSURES

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Company's risk management and internal control systems.

We are required to review the part of Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

## 9. WE HAVE NOTHING TO REPORT ON OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

## 10. RESPECTIVE RESPONSIBILITIES

### Directors' responsibilities

As explained more fully in their statement set out on page 66, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## 11. THE PURPOSE OF THIS REPORT AND RESTRICTIONS ON ITS USE BY PERSONS OTHER THAN THE COMPANY'S MEMBERS AS A BODY

This report is made solely to the Company's members, 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.

## BARRY RYAN

For and on behalf of KPMG Channel Islands Limited

Chartered Accountants and  
Recognised Auditors  
Guernsey

5 July 2021

# Statement of comprehensive income

## For the year ended 31 March 2021

	Note	Year ended 31 March 2021 £	Year ended 31 March 2020 £
<b>Revenue</b>			
Net gains/(losses) on non-derivative financial assets at fair value through profit or loss	6	6,958,954	(112,892,142)
Net gains/(losses) on derivative financial assets at fair value through profit or loss	7	106,075,653	(47,992,453)
Investment income	9	114,979,084	115,453,949
Net foreign exchange gain/(loss)		419,582	(937,093)
<b>Total revenue</b>		<b>228,433,273</b>	<b>(46,367,739)</b>
<b>Expenses</b>			
Investment Adviser fees	10	11,253,254	10,165,841
Investment Manager fees	10	344,938	344,933
Directors' fees and expenses	10	246,127	226,782
Administration fees	10	440,311	425,066
Auditor's fees		198,590	149,074
Legal and professional fees		520,366	240,948
Valuation fees		759,500	761,400
Custodian fees		249,084	235,878
Listing, regulatory and statutory fees		148,768	127,899
Other expenses		219,945	464,082
<b>Total operating expenses</b>		<b>14,380,883</b>	<b>13,141,903</b>
Loan finance costs	15	4,094,586	5,851,763
<b>Total expenses</b>		<b>18,475,469</b>	<b>18,993,666</b>
<b>Profit/(loss) and total comprehensive income/(loss) for the year</b>		<b>209,957,804</b>	<b>(65,361,405)</b>
<b>Basic and diluted earnings/(loss) per Ordinary Share</b>	13	<b>12.62p</b>	<b>(5.03)p</b>

All items in the above statement are from continuing operations.

The accompanying notes on pages 76 to 100 form an integral part of the Financial Statements.



# Statement of changes in Shareholders' equity

## For the year ended 31 March 2021

Year ended 31 March 2021	Note	Share capital £	Retained (losses)/ earnings £	Total £
<b>At 1 April 2020</b>		<b>1,719,065,509</b>	<b>(119,200,238)</b>	<b>1,599,865,271</b>
Issue of Ordinary Shares during the year, net of issue costs	12	<b>112,790,636</b>	—	<b>112,790,636</b>
Total comprehensive income for the year		—	<b>209,957,804</b>	<b>209,957,804</b>
Dividends paid during the year	4	—	<b>(103,483,330)</b>	<b>(103,483,330)</b>
<b>At 31 March 2021</b>		<b>1,831,856,145</b>	<b>(12,725,764)</b>	<b>1,819,130,381</b>

Year ended 31 March 2020	Note	Share capital £	Retained (losses)/ earnings £	Total £
<b>At 1 April 2019</b>		1,072,031,030	25,108,391	1,097,139,421
Issue of Ordinary Shares during the year, net of issue costs	12	647,034,479	—	647,034,479
Total comprehensive loss for the year		—	(65,361,405)	(65,361,405)
Dividends paid during the year	4	—	(78,947,224)	(78,947,224)
<b>At 31 March 2020</b>		1,719,065,509	(119,200,238)	1,599,865,271

The accompanying notes on pages 76 to 100 form an integral part of the Financial Statements.

# Statement of financial position

## At 31 March 2021

	Note	31 March 2021 £	31 March 2020 £
<b>Non-current assets</b>			
Non-derivative financial assets at fair value through profit or loss	6	1,730,455,551	1,551,492,432
<b>Current assets</b>			
Cash and cash equivalents	8	20,018,189	37,581,698
Trade and other receivables	14	108,061,966	90,008,334
Derivative financial assets at fair value through profit or loss	7	51,501,035	6,629,477
<b>Total current assets</b>		179,581,190	134,219,509
<b>Total assets</b>		1,910,036,741	1,685,711,941
<b>Current liabilities</b>			
Loan payable	15	83,894,203	35,000,000
Trade and other payables	16	3,487,807	3,140,194
Derivative financial liabilities at fair value through profit or loss	7	3,524,350	47,706,476
<b>Total current liabilities</b>		90,906,360	85,846,670
<b>Total liabilities</b>		90,906,360	85,846,670
<b>Net assets</b>		1,819,130,381	1,599,865,271
<b>Equity</b>			
Share capital	12	1,831,856,145	1,719,065,509
Retained losses		(12,725,764)	(119,200,238)
<b>Total equity</b>		1,819,130,381	1,599,865,271
<b>Number of Ordinary Shares</b>	12	1,763,120,710	1,654,671,448
<b>Net asset value per Ordinary Share</b>		103.18p	96.69p

The Financial Statements on pages 72 to 100 were approved and authorised for issue by the Board of Directors on 5 July 2021 and signed on its behalf by:

**SANDRA PLATTS**  
Director

The accompanying notes on pages 76 to 100 form an integral part of the Financial Statements.

# Statement of cash flows

## For the year ended 31 March 2021

	Note	Year ended 31 March 2021 £	Year ended 31 March 2020 £
<b>Cash flows from operating activities</b>			
Profit/(loss) for the year		<b>209,957,804</b>	(65,361,405)
Adjustments for:			
Net (gains)/losses on non-derivative financial assets at fair value through profit or loss	6	<b>(6,958,954)</b>	112,892,142
Net (gains)/losses on derivative financial assets at fair value through profit or loss	7	<b>(106,075,653)</b>	47,992,453
Investment Adviser fees settled through issue of Ordinary Shares		<b>842,142</b>	955,218
Net foreign exchange (gain)/loss		<b>(419,582)</b>	937,093
Loan finance costs	15	<b>4,094,586</b>	5,851,763
Increase in trade and other receivables (excluding finance costs)	14	<b>(18,752,224)</b>	(29,128,510)
Increase in trade and other payables (excluding finance costs)	16	<b>294,102</b>	785,719
		<b>82,982,221</b>	74,924,473
Cash received on settled forward contracts		<b>61,655,940</b>	48,119,873
Cash paid on settled forward contracts		<b>(44,633,971)</b>	(47,857,837)
Purchases of investments	6	<b>(401,557,473)</b>	(916,880,278)
Sales of investments	6	<b>229,553,308</b>	370,541,522
<b>Net cash outflow from operating activities</b>		<b>(71,999,975)</b>	(471,152,247)
<b>Cash flows from financing activities</b>			
Proceeds from issue of Ordinary Shares, net of issue costs <sup>1</sup>		<b>108,633,236</b>	646,079,261
Proceeds from loan drawdowns	15	<b>175,183,485</b>	450,311,769
Loan repayments	15	<b>(125,000,000)</b>	(531,249,054)
Payment of loan finance costs		<b>(3,365,984)</b>	(6,221,221)
Dividends paid (excluding scrip dividends) <sup>2</sup>		<b>(100,168,072)</b>	(78,947,224)
<b>Net cash inflow from financing activities</b>		<b>55,282,665</b>	479,973,531
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(16,717,310)</b>	8,821,284
<b>Cash and cash equivalents at beginning of year</b>		<b>37,581,698</b>	27,633,414
Effect of foreign exchange rate changes on cash and cash equivalents during the year		<b>(846,199)</b>	1,127,000
<b>Cash and cash equivalents at end of year</b>		<b>20,018,189</b>	37,581,698

1. Excludes non-cash transactions. For details, refer to note 12.

2. Excludes non-cash transactions. For details, refer to note 4.

The accompanying notes on pages 76 to 100 form an integral part of the Financial Statements.

# Notes to the Financial Statements

For the year ended 31 March 2021

## 1. GENERAL INFORMATION

Sequoia Economic Infrastructure Income Fund Limited (the “Company”) was incorporated and registered in Guernsey under the Companies (Guernsey) Law, 2008 on 30 December 2014. The Company’s registration number is 59596 and it is regulated by the Guernsey Financial Services Commission as a registered closed-ended collective investment scheme under The Registered Collective Investment Scheme Rules 2015. The Company is listed and began trading on the Main Market of the London Stock Exchange and was admitted to the premium segment of the Official List of the UK Listing Authority on 3 March 2015.

The Company makes its investments through its subsidiary Sequoia IDF Asset Holdings S.A. (the “Subsidiary”, together the “Fund”). The Company controls the Subsidiary through a holding of 100% of its shares. The Company further invests in the Subsidiary through the acquisition of Variable Funding Notes (“VFNs”) issued by the Subsidiary. The Subsidiary is domiciled in Luxembourg.

Through its Subsidiary, the Company invests in a diversified portfolio of senior and subordinated economic infrastructure debt investments.

During the year, as a result of the restructuring of a borrower group in which the Subsidiary had invested, the Subsidiary acquired 100% of the shares of three newly incorporated Delaware-domiciled investment holding entities (the “Underlying Subsidiaries”), as follows:

- Fussell Circus Capital, Inc.
- Mears Square Advisors, Inc.
- Bajtos Lane Management, Inc.

With effect from 28 January 2015, Sequoia Investment Management Company Limited (the “Investment Adviser”) was appointed as the Investment Adviser and International Fund Management Limited (the “Investment Manager”) was appointed as the Investment Manager.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

The annual Financial Statements (the “Financial Statements”), which give a true and fair view, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and are in compliance with the Companies (Guernsey) Law, 2008 and the Disclosure Guidance and Transparency Rules.

### Basis of preparation

The Company’s Financial Statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of financial instruments measured at fair value through profit or loss.

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

The Directors believe that the Annual Report and Financial Statements contain all of the information required to enable Shareholders and potential investors to make an informed appraisal of the investment activities and profits and losses of the Company for the year to which it relates and does not omit any matter or development of significance.

In accordance with the investment entities exemption contained in IFRS 10, “Consolidated Financial Statements”, the Board has determined that the Company satisfies the criteria to be regarded as an investment entity and that the Company provides investment-related services.

As a result, the Company is required to only prepare separate Financial Statements under IFRS and measures its investment in its Subsidiary at fair value. This determination involves a degree of judgement (see note 3 for further details).

### Going concern

The Company has been incorporated with an unlimited life. In accordance with the Company’s Articles of Incorporation, the Directors were required to propose an ordinary resolution (the “Continuation Resolution”) on or before 3 September 2016 that the Company continues as a registered closed-ended collective investment scheme, and to propose further Continuation Resolutions within every three years thereafter. Should a Continuation Resolution not be passed, the Directors are required, within six months, to put forward proposals for the reconstruction or reorganisation of the Company to the Shareholders for their approval. These proposals may or may not involve winding up the Company and, accordingly, failure to pass a Continuation Resolution will not necessarily result in the winding up of the Company, nor will it impact upon the valuation of the Company’s investments.

The Directors have considered the possibility that the next Continuation Resolution, to be proposed at the 2021 AGM, may not be passed by Shareholders, however they noted the overwhelming majority vote in favour of the Continuation Resolutions passed in May 2016 and August 2018, the consistently strong appetite for the Company’s investment proposition, evidenced by a number of successful share issues, and that the Company’s shares have, apart from a period from late March to early April 2020, consistently traded at a premium since launch.

The Directors have reviewed the Company’s and the Subsidiary’s holdings in cash and cash equivalents and investments, including a consideration of the revaluation losses arising on certain investments as a result of the COVID-19 pandemic.



Partly as a result of the Company's large capital raise in early March 2020, its balance sheet was exceptionally strong when the consequences of the COVID-19 pandemic impacted on financial markets, with a very low level of gearing. The balance sheet has been further strengthened by another capital raise in March 2021. Moreover, the losses that were incurred at the prior year end – which have already begun to reverse, and should continue to do so as the investments mature and their valuations accrete to par – were unrealised, and therefore have no direct effect on the solvency of the business. The risk of realised losses arising through loans defaulting is limited to a few specific investments, representing a small proportion of the Company's investment portfolio. The Directors also note that, despite a reduction in the level of cash income during the year, resulting from the impact of COVID-19 and of an oil supply glut on certain of the Fund's investments, the interest income cash flow of the Fund remains sufficient to cover operating costs and to pay the Company's target dividend.

### Amended accounting standards effective and adopted

In September 2019, the IASB completed its Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) project, which has amended those standards to require additional disclosures around uncertainty arising from the interest rate benchmark reform, effective for periods commencing on or after 1 January 2020.

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

### Amended accounting standards applicable to future reporting periods

- IAS 1 (amended), "Presentation of Financial Statements" (amendments regarding the classification of liabilities, effective for periods commencing on or after 1 January 2023).

In addition, the IASB has completed the following projects during the period:

- "Annual Improvements to IFRS Standards 2018-2020", published in May 2020. This project has amended certain existing standards effective for accounting periods commencing on or after 1 January 2022; and
- "Replacement issues in the context of the IBOR reform", published in August 2020. This project has amended certain existing standards effective for accounting periods commencing on or after 1 January 2021.

The Directors do not anticipate that the adoption of these amended standards in future periods will have a material impact on the Financial Statements of the Company.

### Investment income

Investment income is recognised in profit or loss in the Statement of Comprehensive Income on the effective interest rate method basis and includes interest income from the Company's investment in VFNs issued by the Subsidiary and from cash and cash equivalents.

### VFN income

Income on VFNs issued by the Subsidiary is paid to the Company on a quarterly basis. VFN income is calculated on an accruals basis, as the amount of revenue receivable in the quarter by the Subsidiary deriving from its investments and cash and cash equivalents, less any expenses due or payable by the Subsidiary.

### Net gains/(losses) on financial assets at fair value through profit or loss

Net gains/(losses) on financial assets at fair value through profit or loss consists of realised and unrealised gains and losses on both non-derivative and derivative financial assets at fair value through profit or loss, and are recognised in profit or loss in the Statement of Comprehensive Income.

Gains or losses on non-derivative financial instruments are calculated as described in the section "Non-derivative financial instruments – fair value and subsequent measurement" within this note; gains or losses on derivative financial instruments are calculated as described in the section "Derivative financial instruments – fair value and subsequent measurement" within this note.

### Expenses

Expenses of the Company are recognised in profit or loss in the Statement of Comprehensive Income on an accruals basis.

### Share-based payments (equity-settled)

In accordance with the terms of the Investment Advisory Agreement, one tenth of the Investment Adviser's fee is settled through the issue of Ordinary Shares in the Company. Services received in exchange for the grant of any share-based payments are measured indirectly by reference to the fair value of the Ordinary Shares at the date of issue. Share-based payments are recognised as an expense in profit or loss in the Statement of Comprehensive Income.

### Ordinary Shares

The Ordinary Shares of the Company are classified as equity based on the substance of the contractual arrangements and in accordance with the definition of equity instruments under IAS 32. The proceeds from the issue of Ordinary Shares are recognised in the Statement of Changes in Shareholders' Equity, net of issue costs.

### Cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investments or other purposes. Certain amounts of the Company's cash may be held as collateral against the Company's forward foreign exchange trading facilities (see note 8).

# Notes to the Financial Statements continued

## For the year ended 31 March 2021

### 2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### Financial instruments

##### Classification

The Company classifies its financial assets and financial liabilities into categories in accordance with IFRS 9, "Financial Instruments".

##### Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities classified in this category are designated by management on initial recognition as part of a group of financial assets and/or liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented investment strategy. This category includes the Company's investment in shares and VFNs issued by the Subsidiary and forward foreign exchange contracts. The investment entities exception to consolidation in IFRS 10, "Consolidated Financial Statements" requires subsidiaries of an investment entity to be accounted for at fair value through profit or loss in accordance with IFRS 9.

##### Financial assets at amortised cost

This category comprises cash and cash equivalents and trade and other receivables.

##### Financial liabilities at amortised cost

This category comprises loans payable and trade and other payables.

##### Recognition and initial measurement

Financial assets and financial liabilities at fair value through profit or loss are measured initially at fair value, being the transaction price, on the trade date. Transaction costs on financial assets at fair value through profit or loss are expensed immediately. Financial assets or financial liabilities not at fair value through profit or loss are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue.

##### Non-derivative financial instruments – fair value and subsequent measurement

After initial measurement, the Company measures non-derivative financial assets classified at fair value through profit or loss at their fair values. Changes in fair value are recorded within "Net gains/(losses) on non-derivative financial assets at fair value through profit or loss" in the Statement of Comprehensive Income. This account includes foreign exchange differences but excludes VFN income.

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

If there is no quoted price in an active market, the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. Please refer to note 6 for further details.

##### Non-derivative financial instruments – amortised cost measurement

After initial measurement, other financial liabilities are measured at amortised cost using the effective interest rate method. The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any allowance for expected credit losses.

At each reporting date, the Company measures the loss allowance on financial assets carried at amortised cost at an amount equal to the lifetime expected credit losses, if the credit risk has increased significantly since initial recognition.

If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Company measures the loss allowance at an amount equal to 12-month expected credit losses. The expected credit losses are estimated based on the Company's historical credit loss experience, adjusted for factors that are specific to the financial asset, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including the time value of money where appropriate.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and exposure at the default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

As at 31 March 2021 and 31 March 2020, the carrying amount of the receivables approximate their fair value.

##### Derivative financial instruments – fair value and subsequent measurement

The Company holds derivative financial instruments to minimise its exposure to foreign exchange risks and from time to time may also hold derivative financial instruments to minimise its exposure to interest rate risks or for economic leveraging. Derivatives are classified as financial assets or financial liabilities (as applicable) at fair value through profit or loss and are initially recognised at fair value; attributable transaction costs are recognised in profit or loss in the Statement of Comprehensive Income when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes thereto are recorded within "Net gains/(losses) on derivative financial instruments at fair value through profit or loss" in the Statement of Comprehensive Income. This account includes foreign exchange differences but excludes interest income. The fair values of derivative transactions are measured using their market prices at the reporting date.

### Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IFRS 9. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

### Foreign currency

#### Functional and presentation currency

The Financial Statements of the Company are presented in the currency of the primary economic environment in which the Company operates (its functional currency). The Directors have considered the primary economic currency of the Company; the currency in which the original finance was raised; the currency in which distributions will be made; and ultimately what currency would be returned to Shareholders if the Company was wound up. The Directors have also considered the currency to which the Company's investments are exposed. On balance, the Directors believe that Sterling best represents the functional currency of the Company during the year. Therefore, the books and records are maintained in Sterling and, for the purpose of the Financial Statements, the results and financial position of the Company are presented in Sterling, which has been selected as the presentation currency of the Company.

### Transactions and balances

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

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

### Dividends

Interim dividends paid to Shareholders are recorded through the Statement of Changes in Shareholders' Equity when they are declared to Shareholders. Final dividends are recorded through the Statement of Changes in Shareholders' Equity when they are approved by Shareholders. The payment of any dividend by the Company is subject to the satisfaction of a solvency test as required by the Companies (Guernsey) Law, 2008.

### Segmental reporting

The Board has considered the requirements of IFRS 8, "Operating Segments". The Company has entered into an Investment Management and Investment Advisory Agreement with the Investment Manager and Investment Adviser respectively, under which the Board has delegated the day-to-day responsibility for the management of the Fund's investment portfolio to the Investment Manager, who has then delegated that responsibility to the Investment Adviser per the Investment Advisory Agreement, subject to the overall supervision of the Board. Subject to its terms and conditions, the Investment Advisory Agreement requires the Investment Adviser to manage the Fund's investment portfolio in accordance with the Company's investment guidelines in effect from time to time, including the authority to purchase and sell securities and other investments and to carry out other actions as appropriate to give effect thereto. However, the Board retains full responsibility to ensure that the Investment Adviser adheres to its mandate. Moreover, the Board is fully responsible for the appointment and/or removal of the Investment Adviser. Accordingly, the Board is deemed to be the "Chief Operating Decision Maker" of the Company.

In the Board's opinion, the Company is engaged in a single segment of business, through its investment in the Subsidiary, being investment in senior and subordinated infrastructure debt instruments and related and/or similar assets.

The Company receives no revenues from external customers. Other than the Subsidiary, which is a Luxembourg company, the Company holds no non-current assets in any geographical area other than Guernsey.

## 3. USE OF JUDGEMENTS AND ESTIMATES

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

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

# Notes to the Financial Statements continued

## For the year ended 31 March 2021

### 3. USE OF JUDGEMENTS AND ESTIMATES CONTINUED

The principal judgements and estimates are as follows:

#### Judgements

##### Functional currency

Refer to note 2 "Functional and presentation currency".

##### Investment entity

The Board has determined that the Company has all the elements of control as prescribed by IFRS 10 in relation to the Subsidiary and the Underlying Subsidiaries, as the Company owns 100% of the equity of the Subsidiary (which in turn owns 100% of the equity of the Underlying Subsidiaries), is exposed and has rights to the returns of the Subsidiary and the Underlying Subsidiaries, and has the ability either directly or through the Investment Adviser to affect the amount of its returns from the Subsidiary and Underlying Subsidiaries.

The Company provides investment management services and has a number of investors who pool their funds to gain access to these services and investment opportunities that they might not have had access to individually. The Company, being listed on the Main Market of the London Stock Exchange, obtains funding from a diverse group of external Shareholders, to whom it has committed that its business purpose is to invest funds solely for the returns from capital appreciation and investment income.

The Company has only one direct investment – the Subsidiary – in which it holds 100% of the equity, however its investment in the Subsidiary is used to acquire exposure to a portfolio comprising a large number of investments. The fair value method is used to represent the Subsidiary's performance in its internal reporting to the Board, and to evaluate the performance of the Subsidiary's investments and to make investment decisions for mature investments. Those investments have documented maturity/redemption dates, or will be sold if other investments with a better risk/reward profile are identified, which the Directors consider demonstrates a clear exit strategy.

The Subsidiary serves as an asset holding company and does not provide investment-related services.

Accordingly, when the Subsidiary is assessed based on the structure of the Company and its Subsidiary as a whole as a means of carrying out activities, the Board has concluded that the Company satisfies sufficient of the criteria above to meet the definition of an investment entity. As a result, under the terms of IFRS 10, the Company is not permitted to consolidate the Subsidiary, but must measure its investment in the Subsidiary at fair value through profit or loss. The Company has determined that the fair value of the Subsidiary is the Subsidiary's net asset value and has concluded that the Subsidiary meets the definition of an unconsolidated subsidiary under IFRS 12 and has made the necessary disclosures.

#### Estimates

##### Fair value of non-derivative and derivative financial instruments at fair value through profit or loss

The Company records its investment in the Subsidiary and in forward foreign exchange contracts at fair value. Details of the valuation methodologies applied in determining the fair value of the Subsidiary and its underlying infrastructure investments are disclosed in note 6. The additional methodology disclosures in note 6 underline the additional valuation estimation uncertainty caused by COVID-19's impact on the financial markets. The valuations of forward foreign exchange contracts are prepared with reference to prevailing exchange rates. The Directors consider that these valuations represent the best estimate of the fair values of the Company's investment in the Subsidiary and its underlying infrastructure investments and in forward foreign exchange contracts.

### 4. DIVIDENDS

On 22 May 2019, the Company announced that it had increased the Company's dividend target from 6.00p to 6.25p per Ordinary Share per annum. Accordingly, with effect from the dividend for the quarter ended 30 June 2019, the Company's dividend policy, in the absence of any significant restricting factors, is to pay dividends totalling 6.25p per Ordinary Share per annum for the foreseeable future. The Company pays dividends on a quarterly basis.

The Company declared the following dividends on its Ordinary Shares during the year ended 31 March 2021:

Period to	Payment date	Dividend rate per Ordinary Share (pence)	Net dividend payable (£)	Record date	Ex-dividend date
31 March 2020	<b>22 May 2020</b>	<b>1.5625</b>	<b>25,854,241</b>	<b>24 April 2020</b>	<b>23 April 2020</b>
30 June 2020	<b>28 August 2020</b>	<b>1.5625</b>	<b>25,854,241</b>	<b>24 July 2020</b>	<b>23 July 2020</b>
30 September 2020	<b>27 November 2020</b>	<b>1.5625</b>	<b>25,880,531</b>	<b>23 October 2020</b>	<b>22 October 2020</b>
31 December 2020	<b>5 March 2021</b>	<b>1.5625</b>	<b>25,894,317</b>	<b>29 January 2021</b>	<b>28 January 2021</b>



The Company paid the following dividends on its Ordinary Shares during the year ended 31 March 2020:

Period to	Payment date	Dividend rate per Ordinary Share (pence)	Net dividend payable (£)	Record date	Ex-dividend date
31 March 2019	30 May 2019	1.5000	15,914,638	3 May 2019	2 May 2019
30 June 2019	23 August 2019	1.5625	19,705,516	26 July 2019	25 July 2019
30 September 2019	22 November 2019	1.5625	21,661,773	25 October 2019	24 October 2019
31 December 2019	21 February 2020	1.5625	21,665,297	24 January 2020	23 January 2020

Under Guernsey law, the Company can pay dividends in excess of its retained earnings provided it satisfies the solvency test prescribed by the Companies (Guernsey) Law, 2008. The solvency test considers whether the Company is able to pay its debts when they fall due, and whether the value of the Company's assets is greater than its liabilities. The Company satisfied the solvency test in respect of all dividends declared or paid in the year.

At an Extraordinary General Meeting of the Company held on 25 February 2020, Shareholders authorised the Directors to offer Shareholders a scrip dividend alternative instead of cash in respect of dividends declared by the Company until the AGM of the Company to be held in 2022. On 10 July 2020, the Company published a circular setting out the terms of the scrip dividend alternative. The first such dividend to include the scrip dividend alternative was paid in August 2020.

During the year ended 31 March 2021, the amount of dividends for which Shareholders took up the scrip dividend alternative was £3,315,258.

## 5. FINANCIAL RISK MANAGEMENT

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

### Market risk

Market risk is the risk that changes in market factors such as foreign exchange rates, interest rates and equity prices will affect the Company's income and/or the value of its holdings in financial instruments.

The Company's exposure to market risk comes mainly from movements in the value of its investment in the Subsidiary and on a look-through basis to the underlying investments in the Subsidiary's portfolio. Changes in credit spreads (in the case of bond or loan investments) or in discount rates (in the case of private equity investments) may further affect the Subsidiary's net equity or net income, and hence the value of the Company's investment in the Subsidiary.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk. The Company's strategy for the management of market risk is driven by its investment objective to provide investors with regular, sustained, long-term distributions and capital appreciation from a diversified portfolio of senior and subordinated economic infrastructure investments, which are held in a portfolio at the Subsidiary level. The various components of the Company's market risk are managed on a daily basis by the Investment Manager in accordance with policies and procedures in place, as detailed below.

In addition, the Company, through its Subsidiary, intends to mitigate market risk generally by not making investments that would cause it to have exposure to any one individual infrastructure asset exceeding 10% of the Fund's investments at the time of investment. The Subsidiary's market positions are monitored on a quarterly basis by the Board of Directors and by the Investment Manager at the point of investment and on an ongoing basis.

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Subsidiary's interest-bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The Company is exposed to cash flow interest rate risk in respect of its cash and cash equivalents and the floating rate debt investments held by the Subsidiary and to fair value interest rate risk in respect of the fixed rate debt investments held by the Subsidiary.

As the Company and the Subsidiary have no investment restrictions which would confine their investment universe to short-dated issues, the Investment Manager is mindful that fixed interest portfolios with longer durations may be subject to relatively greater adverse effects of a rising interest rate environment and inflationary considerations.

Interest rate risk is mitigated through the diversification of assets by duration and jurisdiction and with maintaining in excess of 50% of its portfolio in floating rate or inflation-linked debt.

# Notes to the Financial Statements continued

## For the year ended 31 March 2021

### 5. FINANCIAL RISK MANAGEMENT CONTINUED

#### Market risk continued

Interest receivable on bank deposits or payable on loans or bank overdraft positions will be affected by fluctuations in interest rates. Interest rate risk on cash and cash equivalents and loans payable is not considered significant.

The following table shows the profile of the Subsidiary's investment portfolio:

	31 March 2021		31 March 2020	
	Range of interest rates	£	Range of interest rates	£
Investments with floating interest rates	0.00% to 12.73%	930,981,531	0.00% to 12.52%	1,068,190,141
Investments with fixed interest rates	0.00% to 11.00%	771,596,280	3.88% to 11.00%	464,629,429
Non-interest-bearing investments	N/A	12,532,958	N/A	—
Financial assets at fair value through profit or loss (note 6)		1,715,110,769		1,532,819,570

The following table shows the Directors' best estimate of the sensitivity of the Subsidiary's portfolio of investments to stressed changes in interest rates, with all other variables held constant. The table assumes parallel shifts in the respective forward yield curves and is based on the modified duration of the assets.

Possible reasonable change in interest rate	31 March 2021 effect on net assets and profit or loss £	31 March 2020 effect on net assets and profit or loss £
+1%	(35,066,547)	(18,278,814)
-1%	38,056,100	19,720,694

The possible change in the interest rate of 1% is regarded as reasonable in view of the current low level of global interest rates.

Under the terms of the Prospectus, the Company is permitted to use interest rate hedging instruments to protect against exposure to interest rate risk. However, no such hedging arrangements were entered into during the year and none were in place at the year end.

#### 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 directly exposed to currency risk in respect of its cash and cash equivalents and derivatives denominated in currencies other than Sterling, and indirectly through its investment in the Subsidiary.

The functional and presentational currency of the Company is Sterling. The Company invests in its Subsidiary through VFNs denominated in various currencies other than the functional currency, currently US Dollar, Euro, Australian Dollar and Norwegian Krone. The Subsidiary in turn invests in financial instruments and enters into transactions that are denominated in currencies other than the functional currency. Consequently, the Company is exposed to risk that the exchange rate of its functional currency relative to other foreign currencies may change in a manner that has an adverse effect on the fair value or future cash flows of the Company's financial assets or liabilities.

The Investment Manager monitors the exposure to foreign currencies and reports to the Board on a regular basis. The Investment Manager measures the risk of the foreign currency exposure by considering the effect on the net asset value and income of a movement in the rates of exchange to which the assets, liabilities, income and expenses are exposed. A currency hedging programme is in place at the Company level, in line with the intentions stated in the Prospectus, to protect against the effects of currency exposure on the future income arising from the underlying portfolio of investments held by the Subsidiary.

The total net foreign currency exposure of the Company and the Subsidiary combined at the year end was as detailed in the following table. These figures have been presented on a combined basis, as there exist foreign currency assets and liabilities in both the Company and the Subsidiary, and the forward foreign exchange contracts held at the Company level are taken out to hedge currency exposure existing at the Subsidiary level.

	31 March 2021 £	31 March 2020 £
<b>USD exposure</b>		
Financial assets at fair value through profit or loss	897,519,803	821,314,508
Forward foreign exchange contracts	(941,322,553)	(890,275,485)
Cash and cash equivalents	13,512,834	80,319,309
Trade and other receivables	10,154,628	10,035,723
Loan payable	(11,594,203)	—
Trade and other payables	(16,771)	(10,767,757)
<b>Net USD exposure</b>	<b>(31,746,262)</b>	10,626,298
<b>EUR exposure</b>		
Financial assets at fair value through profit or loss	447,739,330	423,040,901
Forward foreign exchange contracts	(494,974,427)	(488,495,036)
Cash and cash equivalents	4,519,290	11,007,714
Trade and other receivables	5,715,214	6,859,451
Trade and other payables	(48,672)	(68,610)
<b>Net EUR exposure</b>	<b>(37,049,265)</b>	(47,655,580)
<b>NOK exposure</b>		
Financial assets at fair value through profit or loss	18,000,714	14,103,302
Forward foreign exchange contracts	(22,648,464)	(17,684,148)
Cash and cash equivalents	436,276	904,421
Trade and other receivables	179,529	169,434
<b>Net NOK exposure</b>	<b>(4,031,945)</b>	(2,506,991)
<b>AUD exposure</b>		
Financial assets at fair value through profit or loss	42,223,203	35,558,372
Forward foreign exchange contracts	(41,317,761)	(38,841,991)
Cash and cash equivalents	—	—
Trade and other receivables	682,259	733,128
<b>Net AUD exposure</b>	<b>1,587,701</b>	(2,550,491)
<b>Total exposure</b>	<b>(71,239,771)</b>	(42,086,764)

	Possible reasonable change in exchange rate	31 March 2021 net exposure £	31 March 2021 effect on net assets and profit or loss £	Possible reasonable change in exchange rate	31 March 2020 net exposure £	31 March 2020 effect on net assets and profit or loss £
USD/GBP	+/- 5%	(31,746,262)	-/+ 1,587,313	+/- 5%	10,626,298	+/- 531,315
EUR/GBP	+/- 5%	(37,049,265)	-/+ 1,852,463	+/- 5%	(47,655,580)	-/+ 2,382,779
NOK/GBP	+/- 5%	(4,031,945)	-/+ 201,597	+/- 5%	(2,506,991)	-/+ 125,350
AUD/GBP	+/- 5%	1,587,701	+/- 79,385	+/- 5%	(2,550,491)	-/+ 127,525

The possible change in exchange rates of 5% is regarded as reasonable, as this is the approximate volatility during the course of the year of Sterling against the major currencies to which it is exposed.

# Notes to the Financial Statements continued

## For the year ended 31 March 2021

### 5. FINANCIAL RISK MANAGEMENT CONTINUED

#### Market risk continued

##### Currency risk continued

The following table details the split of currencies based on fair value of bonds and loans in the Subsidiary's investment portfolio:

Currency	31 March 2021 £	31 March 2020 £
Sterling	309,627,719	238,802,487
US Dollar	897,519,803	821,314,508
Euro	447,739,330	423,040,901
Norwegian Krone	18,000,714	14,103,302
Australian Dollar	42,223,203	35,558,372
<b>Total</b>	<b>1,715,110,769</b>	1,532,819,570

#### Credit and counterparty 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 or the Subsidiary or a vehicle in which the Company or Subsidiary invests, resulting in a financial loss to the Company. It arises principally from debt securities held, and also from derivative financial assets and cash and cash equivalents. For risk management reporting purposes, the Company considers and aggregates all elements of credit risk exposure (such as individual obligation default risk, country risk and sector risk).

In respect of the debt investments, credit risk is the risk that the fair value of a loan (or more generally, a stream of debt payments) will decrease due to a change in the borrower's ability to make payments, whether that change is an actual default or a change in the borrower's probability of default.

The Investment Manager's management of the Subsidiary's portfolio is underpinned by the ongoing monitoring and mitigation of credit risk in the portfolio to ensure that any credit events or institutional ratings changes are identified in a timely manner.

The following table analyses the external ratings of the Subsidiary's portfolio investments, calculated using all available ratings for the portfolio investments from Standard & Poor's, Moody's and Fitch.

Standard & Poor's rating (or equivalent)	31 March 2021 £	31 March 2020 £
BBB- to BBB+	—	20,394,788
BB- to BB+	56,382,852	78,601,721
B- to B+	213,782,120	165,946,714
CCC- to CCC+	670,107	19,405,367
Unrated	1,444,275,690	1,248,470,980
	<b>1,715,110,769</b>	1,532,819,570

Prior to any investment purchase, the Investment Adviser provides a credit memorandum to the Investment Manager which includes a Sequoia Credit Rating (based on an in-house rating system, which takes into account certain facets of the investment, including the issuer's security, financial statements, debt covenants and the type of debt) for the debt investment, along with a recommendation to purchase the asset. The Investment Manager vets the recommendation and liaises with the Risk Committee where appropriate.

The mitigation of credit risk starts with the Investment Adviser's Investment Committee, which monitors risks associated with potential debt investments and makes recommendations for acquisitions whilst allocating a Sequoia Credit Rating.

The Investment Adviser formally performs credit reviews of the full portfolio at least semi-annually or as and when a particular "Credit Event" occurs.

The single investment rated in the CCC band at the year end was downgraded during the year from BBB at the prior year end.



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

	31 March 2021 £	31 March 2020 £
Non-derivative financial assets at fair value through profit or loss	1,730,455,551	1,551,492,432
Cash and cash equivalents	20,018,189	37,581,698
Trade and other receivables	107,623,905	88,878,671
Derivative financial assets at fair value through profit or loss	51,501,035	6,629,477
	1,909,598,680	1,684,582,278

In line with the Company's original Prospectus, a cash management policy has been put in place. Cash deposits will only be placed with banks that hold a short-term rating of at least A-1, P-1 or F1 from Standard & Poor's, Moody's or Fitch respectively and no more than 40% of net assets may be placed with any one bank at any time. The Investment Manager carefully manages this process, ensuring uninvested cash is dispersed to adequately rated banks whilst maximising interest received. The Bank of New York Mellon, as Custodian, holds cash in relation to the portfolio operations and in order to settle investment transactions. At the year end the Standard & Poor's short-term credit rating of Bank of New York Mellon was A-1+ (2020: A-1+).

For operational purposes, the Company's policy is to utilise banks with an investment grade rating or higher (A-3, P-3 or F3 from Standard & Poor's, Moody's or Fitch respectively). The Company's operational cash is held with The Royal Bank of Scotland International Limited ("RBSI"). During the year, the Company has used AFEX Markets plc ("AFEX"), Global Reach Partners ("Global Reach"), Investec Bank (Channel Islands) Limited ("IBCI"), Macquarie Bank Limited ("Macquarie"), Monex Europe Limited ("Monex"), RBSI and TTT Moneycorp Limited ("Moneycorp") to undertake forward foreign exchange transactions. Hedging collateral may be held with these institutions if required. At the year end the short-term credit ratings of these institutions were as follows (Standard & Poor's unless otherwise specified): AFEX, Global Reach and Moneycorp: no rating; IBCI: F2 (Fitch); Macquarie: A-1; Monex: B (Fitch); and RBSI: A-2 (2020: AFEX, Global Reach and Moneycorp: no rating; IBCI: F2 (Fitch); Macquarie: A-1; Monex: B (Fitch); and RBSI: A-2).

Bankruptcy or insolvency of any of the above financial institutions may cause the Company's rights with respect to the cash held to be delayed or limited. The Company monitors its risk by regularly monitoring the credit ratings of these financial institutions.

Credit risk arising on debt securities held by the Subsidiary is constantly monitored by the Investment Manager. Credit risk is mitigated by the diversification of assets by maturity profile and jurisdiction.

The Subsidiary's exposure to credit risk in respect of its investments, based on the country of registration, is summarised below:

	31 March 2021 £	31 March 2020 £
United States of America/Canada	812,492,696	775,373,280
Europe	454,503,091	429,113,987
United Kingdom	329,926,631	238,802,487
Australia	118,188,351	89,529,816
<b>Subsidiary financial assets at fair value through profit or loss (note 6)</b>	<b>1,715,110,769</b>	<b>1,532,819,570</b>

The table below summarises the Subsidiary's portfolio concentrations:

	Largest portfolio holding of a single asset % of total portfolio	Average portfolio holding % of total portfolio
<b>31 March 2021</b>	<b>3.79</b>	<b>1.39</b>
	Largest portfolio holding of a single asset % of total portfolio	Average portfolio holding % of total portfolio
<b>31 March 2020</b>	<b>3.69</b>	<b>1.39</b>

# Notes to the Financial Statements continued

## For the year ended 31 March 2021

### 5. FINANCIAL RISK MANAGEMENT CONTINUED

#### Credit and counterparty risk continued

The following table summarises the Subsidiary's exposure to market risk, based on its concentration by industry:

	31 March 2021 £	31 March 2020 £
Accommodation	185,205,708	167,835,718
Power	232,318,888	207,951,468
Renewable energy	207,202,711	165,840,298
Telecommunication, Media and Technology	265,414,467	255,035,983
Transport	254,637,163	327,299,841
Transportation equipment	226,102,271	99,159,887
Utilities	157,978,661	129,961,433
Other	186,250,900	179,734,942
<b>Subsidiary financial assets at fair value through profit or loss (note 6)</b>	<b>1,715,110,769</b>	<b>1,532,819,570</b>

Activities undertaken by the Company and the Subsidiary may give rise to settlement risk. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the majority of transactions, settlement risk is mitigated by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval and limit monitoring processes. The Investment Manager also conducts reviews of the settlement process and Custodian to ensure a stringent settlement process is in place.

#### Liquidity risk

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

The Company's policy and the Investment Manager's approach to managing liquidity risk in both the Company and the Subsidiary 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 accordance with the Alternative Investment Fund Managers Directive ("AIFMD"), the Company has implemented a liquidity policy that is consistent with its underlying obligations and redemption policy, in accordance with the requirements relating to quantitative and qualitative risk limits and which considers both funding and trading liquidity.

The Investment Manager manages the Company's liquidity risk by taking into account the liquidity profile and strategy of the Company and at the Subsidiary level primarily through investing in a diverse portfolio of assets. Liquidity risk mitigation will be sought through careful selection of assets, asset duration, asset liquidity profiling through loan market interaction, geographical focus, currency allocations, cash management and other Company considerations.

Given the Company's permanent capital structure as a closed-ended fund, it is not exposed to redemption risk. However, the financial instruments of the Company and the Subsidiary include derivative contracts traded over-the-counter and debt investments, which are not traded in an organised public market and which may be illiquid.

The overall liquidity risk of the Company and the Subsidiary is monitored on a quarterly basis by the Board of Directors and on an ongoing basis by the Investment Manager. Shareholders will have no right of redemption and must rely, in part, on the existence of a liquid market in order to realise their investment.

There are no Company assets subject to special arrangements arising from their illiquid nature.

With the exception of the loan payable (see note 15) and certain forward foreign exchange contracts (see note 7), the Company's accounts receivable and financial liabilities at 31 March 2021 will all mature within four months of the reporting date.

## Operational risk

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

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

The Investment Manager works with the Board to identify the risks facing the Company and the Subsidiary. The key risks are documented and updated in the Risk Matrix by the Investment Manager.

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

The Directors' assessment of the adequacy of the controls and processes in place at service providers with respect to operational risk is carried out through having discussions with and reviewing reports from the Investment Manager, who conducts regular discussions with the service providers.

## Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the Company. The Company's capital is represented by its share capital. During the year, the Company raised further capital of £110 million through a placing of Ordinary Shares. Capital is managed in accordance with the investment policy, in pursuit of its investment objectives. There are no duration restrictions on the investments acquired by the Subsidiary. Target annual returns for investors in the Company are an income return of 5% to 6% and a capital return of 1% to 2%.

The Company may employ leverage for short-term liquidity or investment purposes. During the year, the Company has maintained a revolving credit facility of £280 million with a consortium of three banks led by Royal Bank of Scotland International Limited (see note 15).

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

	Year ended 31 March 2021 £	Year ended 31 March 2020 £
Cost at the start of the year	1,624,517,455	1,078,100,991
VFNs purchased during the year	401,557,473	916,880,278
VFNs redeemed during the year	(229,553,308)	(370,541,522)
Realised gains on VFNs redeemed during the year	—	77,708
Cost at the end of the year	1,796,521,620	1,624,517,455
Net unrealised losses on non-derivative financial assets at the end of the year	(66,066,069)	(73,025,023)
<b>Non-derivative financial assets at fair value through profit or loss at the end of the year</b>	<b>1,730,455,551</b>	<b>1,551,492,432</b>

The following table provides a reconciliation of the financial assets at fair value through profit or loss of the Subsidiary to the Company's financial assets at fair value through profit or loss:

	31 March 2021 £	31 March 2020 £
Subsidiary's non-derivative financial assets at fair value through profit or loss	1,715,110,769	1,532,819,570
Subsidiary's net current assets	15,344,782	18,672,862
<b>Company's non-derivative financial assets at fair value through profit or loss</b>	<b>1,730,455,551</b>	<b>1,551,492,432</b>

# Notes to the Financial Statements continued

## For the year ended 31 March 2021

### 6. NON-DERIVATIVE FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS CONTINUED

None of the Subsidiary's non-derivative financial assets at fair value through profit or loss are subject to any special arrangements arising from their illiquid nature.

The Company's net gains/(losses) on non-derivative financial assets at fair value through profit or loss in the year comprises the following:

	Year ended 31 March 2021 £	Year ended 31 March 2020 £
Unrealised foreign exchange (losses)/gains on VFNs	(116,070,950)	40,849,001
Realised gains on VFNs redeemed	—	77,708
Unrealised gain/(loss) on revaluation of the Subsidiary	123,029,904	(153,818,851)
<b>Net gains/(losses) on non-derivative financial assets at fair value through profit or loss</b>	<b>6,958,954</b>	<b>(112,892,142)</b>

On a look-through basis, the Fund's cumulative net gains on non-derivative financial assets at fair value through profit or loss as at 31 March 2021 comprises the following:

	Year ended 31 March 2021 £	Year ended 31 March 2020 £
<b>Subsidiary</b>		
Investment income during the year	124,057,619	110,569,914
Net return on financial assets and liabilities during the year, including foreign exchange and VFN expenses payable	(7,496,864)	(269,623,773)
Net other income during the year	6,469,149	5,235,008
Subsidiary gains/(losses) during the year	123,029,904	(153,818,851)
Subsidiary (losses)/gains brought forward	(151,157,567)	2,661,284
<b>Subsidiary losses carried forward at the end of the year</b>	<b>(28,127,663)</b>	<b>(151,157,567)</b>
<b>Company</b>		
Unrealised foreign exchange gains on VFNs brought forward	78,132,544	37,283,543
Unrealised foreign exchange (losses)/gains on VFNs during the year	(116,070,950)	40,849,001
<b>Net losses on non-derivative financial assets at fair value through profit or loss carried forward at the end of the year</b>	<b>(66,066,069)</b>	<b>(73,025,023)</b>

### Fair value measurement

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.



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

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

The Company’s investment in the Subsidiary, through the acquisition of shares and the issue of VFNs, is classified within Level 3, as it is not traded and contains unobservable inputs. The Board considers that the NAV of the Subsidiary is representative of its fair value.

	31 March 2021			
	Level 1 £	Level 2 £	Level 3 £	Total £
<b>Assets</b>				
Non-derivative financial assets at fair value through profit or loss	—	—	1,730,455,551	1,730,455,551
Derivative financial assets at fair value through profit or loss	—	51,501,035	—	51,501,035
<b>Total</b>	—	51,501,035	1,730,455,551	1,781,956,586
<b>Liabilities</b>				
Derivative financial liabilities at fair value through profit or loss	—	3,524,350	—	3,524,350
<b>Total</b>	—	3,524,350	—	3,524,350

	31 March 2020			
	Level 1 £	Level 2 £	Level 3 £	Total £
<b>Assets</b>				
Non-derivative financial assets at fair value through profit or loss	—	—	1,551,492,432	1,551,492,432
Derivative financial assets at fair value through profit or loss	—	6,629,477	—	6,629,477
<b>Total</b>	—	6,629,477	1,551,492,432	1,558,121,909
<b>Liabilities</b>				
Derivative financial liabilities at fair value through profit or loss	—	47,706,476	—	47,706,476
<b>Total</b>	—	47,706,476	—	47,706,476

During the year there have been no transfers between levels of the fair value hierarchy. Such transfers are recognised at the end of the reporting period in which the change has occurred.

Movements in the Company’s Level 3 financial instruments during the year were as follows:

	Year ended 31 March 2021 £	Year ended 31 March 2020 £
Opening balance	1,551,492,432	1,118,045,818
Purchases	401,557,473	916,880,278
Sales	(229,553,308)	(370,541,522)
Net gains/(losses) on non-derivative financial assets in the year	6,958,954	(112,892,142)
<b>Closing balance</b>	<b>1,730,455,551</b>	1,551,492,432

# Notes to the Financial Statements continued

## For the year ended 31 March 2021

### 6. NON-DERIVATIVE FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS CONTINUED

#### Fair value measurement continued

The investments held by the Subsidiary in the underlying portfolio are classified within the fair value hierarchy as follows:

Assets	31 March 2021			
	Level 1 £	Level 2 £	Level 3 £	Total £
Non-derivative financial assets at fair value through profit or loss	—	947,203,656	767,907,113	1,715,110,769

Assets	31 March 2020			
	Level 1 £	Level 2 £	Level 3 £	Total £
Non-derivative financial assets at fair value through profit or loss	19,631,392	271,606,409	1,241,581,769	1,532,819,570

The Subsidiary's Level 3 investment valuations are calculated by discounting future cash flows at a yield appropriate to comparable infrastructure loans or bonds (with such yield assessed primarily from publicly available sources and secondarily in consultation with brokers and syndicate desks). Spread data will also be cross-referenced to recently priced primary market transactions if possible. When identifying comparable loans or bonds, for the purpose of assessing market yields, structural and credit characteristics and project type are also considered.

The equity investments arising from the restructuring of a borrower group during the year have been fair valued principally on a discounted cash flow basis.

During the year, 20 investments, with a total value of £538,351,566, were transferred from Level 3 to Level 2 of the fair value hierarchy. Such transfers are recognised at the end of the reporting period in which the change has occurred.

The following table summarises the significant unobservable inputs the Company used to value its Subsidiary's underlying investments categorised within Level 3 at 31 March 2021. The table is not intended to be all-inclusive but instead captures the significant unobservable inputs relevant to our determination of fair values.

31 March 2021 Type	Sector	Fair value £	Primary valuation technique	Significant unobservable inputs	Range input
Private debt	Accommodation	47,935,702	Discounted cash flow	Discount rate	7.2%-7.2%
Private debt	Power	172,493,544	Discounted cash flow	Discount rate	7.1%-12.4%
Private debt	Renewable energy	137,541,446	Discounted cash flow	Discount rate	4.0%-8.5%
Private debt	TMT	101,012,673	Discounted cash flow	Discount rate	5.7%-9.0%
Private debt	Transport	69,426,284	Discounted cash flow	Discount rate	5.8%-8.5%
Private debt	Transport assets	64,909,902	Discounted cash flow	Discount rate	5.5%-5.5%
Private debt	Utilities	85,473,024	Discounted cash flow	Discount rate	5.1%-9.5%
Private equity	Utilities	12,532,958	Discounted cash flow	Discount rate	19.9%-30.0%
Private debt	Other	55,454,319	Discounted cash flow	Discount rate	5.8%-14.3%
Securitisations (ABS)	Transport assets	21,127,260	Unadjusted broker quote*	N/A	N/A
		767,907,113			

31 March 2020 Type	Sector	Fair value £	Primary valuation technique	Significant unobservable inputs	Range input
Private debt	Accommodation	141,426,653	Discounted cash flow	Discount rate	7.3%-9.7%
Private debt	Power	28,982,043	Market information	Trading activity	N/A
Private debt	Power	146,391,084	Discounted cash flow	Discount rate	6.5%-19.7%
Private debt	Renewable energy	120,694,194	Discounted cash flow	Discount rate	5.4%-10.8%
Private debt	TMT	255,035,982	Discounted cash flow	Discount rate	7.1%-12.6%
Private debt	Transport	29,728,545	Market information	Trading activity	N/A
Private debt	Transport	225,579,880	Discounted cash flow	Discount rate	6.3%-14.4%
Private debt	Transport assets	119,539	Market information	Trading activity	N/A
Private debt	Utilities	101,995,521	Discounted cash flow	Discount rate	8.5%-29.3%
Private debt	Other	160,103,551	Discounted cash flow	Discount rate	7.1%-15.1%
Securitisations (ABS)	Transport assets	31,524,777	Unadjusted broker quote*	N/A	N/A
		1,241,581,769			

\* Securitisations (ABS) held by the Company have been fair valued using third-party pricing information without adjustment, therefore in accordance with IFRS 13.93(d), the Company is not required to disclose significant unobservable inputs since they have not been developed by the Company.

The following table shows the Directors' best estimate of the sensitivity of the Subsidiary's Level 3 investments to changes in the principal unobservable input, with all other variables held constant.

Unobservable input	Possible reasonable change in input	31 March 2021 effect on net assets and profit or loss £	31 March 2020 effect on net assets and profit or loss £
Discount rate	+1%	(22,659,763)	(15,339,864)
	-1%	24,704,688	16,641,452

The possible changes in the discount rate of 1% are regarded as reasonable in view of the current low level of global interest rates.

### Valuation techniques for the investment portfolio of the Subsidiary

With effect from 18 April 2017, the Company engaged PricewaterhouseCoopers LLP ("PwC") as Valuation Agent, with responsibility for reviewing the valuations applied by the Investment Adviser in relation to the acquisition of loans and bonds on a monthly basis. The principles and techniques utilised by the Investment Adviser and reviewed by PwC during the year in calculating the valuations are described below.

During the year, as part of the restructuring of a borrower group, the Subsidiary acquired 100% of the shares in the Underlying Subsidiaries. As part of this restructuring, the Fund contributed USD 4 million in cash in return for a term loan.

### Performing portfolio assets

Valuations of performing portfolio loans and bonds are based on actual market prices (bid-side prices) obtained from third-party brokers and syndicate desks if available (such brokers to be agreed with the Investment Adviser); if such prices are not available, then valuations are calculated by discounting future cash flows at a yield appropriate to comparable infrastructure loans or bonds (with such yield assessed primarily from publicly available sources and secondarily in consultation with brokers and syndicate desks). Spread data will also be cross-referenced to recently priced primary market transactions if possible.

When identifying comparable loans or bonds, for the purpose of assessing market yields, the following will be taken into account:

- project type: jurisdiction, sector, project status, transaction counterparties such as construction companies, facility management providers;
- structural characteristics: maturity and average life, seniority, secured/unsecured, amortisation profile, cash sweeps, par versus discount; and
- credit characteristics: credit ratios (e.g. equity cushion, asset cover/LTV, debt service coverage ratios or equivalent, debt/EBITDA), ratings and ratings trajectory.

In calculating the net present value of future cash flows on loans with uncertain cash flows (such as cash-sweep mechanisms), "banking base case" cash flows are used unless there is clear evidence that the market is using a valuation based upon another set of cash flows.

In the case of discount loans with step-up margins, the assumption will be that market discounts are calculated on a yield-to-worst basis, unless there is clear evidence that the market convention for that loan is different.

# Notes to the Financial Statements continued

## For the year ended 31 March 2021

### 6. NON-DERIVATIVE FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS CONTINUED

#### Valuation techniques for the investment portfolio of the Subsidiary continued

##### Non-performing portfolio assets

For variable rate loans and bonds, for the purposes of projecting cash flows, the market convention of simple compounding to the next interest payment date is used and swap rates for subsequent interest payments, unless there is clear evidence that the market convention for that loan or bond is different.

The equity investments arising from the restructuring of a borrower group during the year have been fair valued principally on a discounted cash flow basis.

Valuations of non-performing portfolio loans and bonds are based on actual market prices obtained from third-party brokers if available, otherwise the net present value of future expected loan cash flows will be calculated, estimated on the basis of the median outcome and discount rate that reflects the market yield of distressed/defaulted loans or bonds.

In assessing the median outcome cash flows, a project/corporate model that reflects the distressed state of the project will be used in order to assess a range of potential outcomes for expected future cash flows with regard to, for example, interest or principal recoveries and timing. The Investment Adviser will work closely with the Valuation Agent and they will have access to the Investment Adviser's own model, analysis and internal valuations. These valuations are subject to a high degree of management oversight and ultimate approval by the Investment Manager.

In the opinion of the Investment Adviser, as at 31 March 2021, there were two non-performing assets in the portfolio.

##### The effect of COVID-19 on the net asset value

The valuation process outlined above did not itself change as a result of COVID-19, however there was a need for a very high level of care in, firstly, determining appropriate benchmarks or comparable infrastructure loans or bonds for valuation purposes, particularly given the very high levels of volatility in the early part of the year, and, secondly, ensuring that the underlying cash flow assumptions continued to be appropriate given the ongoing economic disruption caused by COVID-19. This was especially important in sectors directly exposed to the disruption, such as transport infrastructure, aircraft leasing and midstream assets, or other assets exposed to oil or gas prices. The Investment Adviser has worked closely with the Valuation Agent during the year to ensure that these assumptions remained appropriate, and they continue to be subject to a high level of oversight by the Investment Manager and the Audit Committee.

The level of volatility in financial markets has reduced during the year, however there remains uncertainty around how the COVID-19 pandemic and disruption to oil and gas markets will evolve. The Board and its advisers continue to monitor developments closely in order to maintain the same level of rigour in the valuation of the Fund's investments going forward.

##### Finalising the net asset value

Once the appropriate position price has been determined to be applied to each investment, the calculation of the Subsidiary's net asset value is finalised through the following steps:

- conversion of each investment into GBP based on month-end foreign exchange rates;
- reconciliation of any interest accrued since issue of the most recent coupon; and
- aggregation of the investments into a single Fund NAV position statement (clean and dirty price).

### 7. DERIVATIVE FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 March 2021, the Company had the following outstanding commitments in respect of open forward foreign exchange contracts, by currency and by counterparty.

31 March 2021 Selling currency	Currency amount	Buying currency	GBP amount £	Unrealised gains £	Unrealised losses £	Net unrealised gains/(losses) £
USD	1,264,967,700	GBP	941,322,553	27,097,528	(3,194,249)	23,903,279
EUR	588,500,000	GBP	527,409,212	24,389,659	—	24,389,659
NOK	268,000,000	GBP	22,648,464	13,848	(118,165)	(104,317)
AUD	75,000,000	GBP	41,317,761	—	(120,166)	(120,166)
			1,532,697,990	51,501,035	(3,432,580)	48,068,455
<b>Buying currency</b>						
EUR	38,000,000	GBP	(32,434,785)	—	(91,770)	(91,770)
			(32,434,785)	—	(91,770)	(91,770)
			1,500,263,205	51,501,035	(3,524,350)	47,976,685



Counterparty	Unrealised gains £	Unrealised losses £	Net unrealised gains/(losses) £
AFEX	103,104	(78,961)	24,143
Investec Bank	7,318,885	(28,459)	7,290,426
Macquarie	28,914,661	(264,247)	28,650,414
Monex	288,802	—	288,802
Moneycorp	1,673,609	(312,053)	1,361,556
RBSI	13,201,974	(2,840,630)	10,361,344
	<b>51,501,035</b>	<b>(3,524,350)</b>	<b>47,976,685</b>

31 March 2020 Selling currency	Currency amount	Buying currency	GBP amount £	Unrealised gains £	Unrealised losses £	Net unrealised gains/(losses) £
USD	1,152,967,700	GBP	890,275,485	245,742	(36,463,660)	(36,217,918)
EUR	558,600,000	GBP	488,495,036	3,595,541	(11,242,816)	(7,647,275)
NOK	218,000,000	GBP	17,684,148	884,667	—	884,667
AUD	75,000,000	GBP	38,841,991	1,903,527	—	1,903,527
			1,435,296,660	6,629,477	(47,706,476)	(41,076,999)

Counterparty	Unrealised gains £	Unrealised losses £	Net unrealised gains/(losses) £
AFEX	—	(281,684)	(281,684)
Global Reach	—	(953,425)	(953,425)
Investec Bank	98,429	(10,297,404)	(10,198,975)
Macquarie	3,579,048	(7,964,160)	(4,385,112)
Monex	—	(6,080,817)	(6,080,817)
Moneycorp	508,840	(3,728,461)	(3,219,621)
RBSI	2,443,160	(18,400,525)	(15,957,365)
	6,629,477	(47,706,476)	(41,076,999)

All forward foreign exchange positions at the year end were held with AFEX Markets plc, Investec Bank (Channel Islands) Limited, Macquarie Bank Limited, Monex Europe Limited, the Royal Bank of Scotland International or TTT Moneycorp Limited, as noted above. There are no master netting arrangements in place.

The forward foreign exchange positions at the year end have various maturity dates ranging from 1 April 2021 to 29 July 2022 (2020: 20 April 2020 to 28 February 2022).

The net gains/(losses) on forward foreign exchange contracts in the year comprises both realised and unrealised losses as follows:

	Year ended 31 March 2021 £	Year ended 31 March 2020 £
Net realised gains on forward foreign exchange contracts during the year	17,021,969	262,036
Net unrealised gains/(losses) on forward foreign exchange contracts during the year	89,053,684	(48,254,489)
<b>Net gains/(losses) on forward foreign exchange contracts during the year</b>	<b>106,075,653</b>	<b>(47,992,453)</b>

As at 31 March 2021, £nil (2020: £24.7 million) was held as collateral in margin accounts.

# Notes to the Financial Statements continued

## For the year ended 31 March 2021

### 8. CASH AND CASH EQUIVALENTS

	31 March 2021 £	31 March 2020 £
Cash held on call or overnight deposit accounts	20,018,189	37,581,698
	<b>20,018,189</b>	37,581,698

Under the terms of its forward foreign exchange trading agreements with AFEX Markets plc, Global Reach Partners, Investec Bank (Channel Islands) Limited, Macquarie Bank Limited, Monex Europe Limited, Royal Bank of Scotland International and TTT Moneycorp Limited, the Company may be required in certain circumstances to retain balances in collateral accounts representing the applicable margin on each facility. As at 31 March 2021, £nil (2020: £24,716,033) was held in collateral accounts.

### 9. INVESTMENT INCOME

	Year ended 31 March 2021 £	Year ended 31 March 2020 £
Investment income on financial assets carried at amortised cost:		
Cash and cash equivalents	633	14
Investment income on the Company's non-derivative financial assets at fair value through profit or loss	114,978,451	115,453,935
	<b>114,979,084</b>	115,453,949

### 10. RELATED PARTIES AND OTHER MATERIAL CONTRACTS

#### Directors' fees

Robert Jennings is entitled to a fee in remuneration for his services as Chair of the Board of Directors at a rate payable of £75,000 per annum (remaining at £75,000 per annum with effect from 1 April 2021). The remaining Directors are entitled to a basic fee in remuneration for their services as Directors at a rate of £44,300 each per annum (increasing to £48,000 per annum with effect from 1 April 2021).

Jan Pethick and Jon Bridel are each entitled to a fee of £10,000 per annum in respect of their roles as Chair of the Management Engagement Committee and Chair of the Risk Committee respectively (reducing to £6,300 per annum with effect from 1 April 2021). Sandra Platts is entitled to a fee of £10,000 per annum in respect of her role as Chair of the Audit and Remuneration Committees (remaining at £10,000 per annum with effect from 1 April 2021).

Sandra Platts is entitled to an additional fee of £7,700 per annum for serving as the Senior Independent Director (reducing to £4,000 per annum with effect from 1 April 2021).

#### Ordinary Shares held by related parties

The shareholdings of the Directors in the Company were as follows:

Name	31 March 2021		31 March 2020	
	Number of Ordinary Shares	Percentage of Ordinary Shares in issue	Number of Ordinary Shares	Percentage of Ordinary Shares in issue
Robert Jennings (Chair) (with other members of his family)	242,666	0.01%	242,666	0.01%
Jan Pethick (with his spouse)	263,820	0.01%	263,820	0.02%
Jon Bridel (with his spouse)	10,452	0.00%	10,452	0.00%
Sandra Platts (in a family Retirement Annuity Trust Scheme)	26,776	0.00%	26,776	0.00%

As at 31 March 2021, the Investment Adviser held an aggregate of 3,458,102 Ordinary Shares (2020: 3,263,680 Ordinary Shares), which is 0.20% (2020: 0.21%) of the issued share capital.

As at 31 March 2021, the members of the Investment Adviser's founding team held an aggregate of 692,643 Ordinary Shares (2020: 681,643 Ordinary Shares), which is 0.04% (2020: 0.04%) of the issued share capital.

As at 31 March 2021, the Investment Manager held an aggregate of 50,000 Ordinary Shares (2020: 50,000 Ordinary Shares), which is 0.00% (2020: 0.00%) of the issued share capital.

## Transactions with Investment Manager and Investment Adviser

### Investment Manager

International Fund Management Limited (the "Investment Manager") was appointed as the Investment Manager with effect from 28 January 2015. With effect from 1 December 2016, the Investment Manager was entitled to receive a management fee for AIFM services calculated as follows:

- if the Company's NAV is less than £200 million, 0.075% per annum of the value of the Company's NAV; plus
- if the Company's NAV is more than £200 million and less than £400 million, 0.05% per annum of the Company's NAV not included above; plus
- if the Company's NAV is more than £400 million and less than £500 million, 0.04% per annum of the Company's NAV not included above; plus
- if the Company's NAV is more than £500 million, 0.015% per annum of the Company's NAV not included above.

The fee is subject to an annualised minimum of £80,000 applied on a monthly basis and is payable monthly in arrears.

With effect from 2 May 2017, the management fee was capped at £320,000 per annum, subject to an annual inflation-linked increase (with effect from 1 May 2021: £350,121; with effect from 1 May 2020: £344,269; with effect from 1 May 2019: £335,872).

The Investment Management Agreement can be terminated by either party giving not less than six months' written notice.

### Investment Adviser

Sequoia Investment Management Company Limited (the "Investment Adviser") was appointed as the Investment Adviser with effect from 28 January 2015. With effect from 1 September 2018, the Investment Adviser is entitled to receive from the Company a base fee calculated as follows:

- 0.74% of the market value of the investments (excluding committed but not yet invested investments and cash) owned by the Subsidiary up to £1 billion; plus
- 0.56% of the market value of the investments (excluding committed but not yet invested investments and cash) owned by the Subsidiary in excess of £1 billion.

All such fees are payable quarterly. 10% of the Investment Adviser's fee is applied in subscribing for Ordinary Shares in the Company, which the Investment Adviser shall retain with a three-year rolling lock-up (such that those Ordinary Shares may not be sold or otherwise disposed of by the Investment Adviser without the prior consent of the Company before the third anniversary of the date of issue of the relevant Ordinary Shares).

On 20 April 2020, the Investment Adviser acquired 252,347 Ordinary Shares in the market in relation to fees payable for the quarter ended 31 March 2020.

On 16 July 2020, the Company issued 269,368 Ordinary Shares to the Investment Adviser, in relation to fees payable for the period ended 30 June 2020.

On 20 November 2020, the Company issued 264,741 Ordinary Shares to the Investment Adviser in relation to fees payable for the period ended 30 September 2020.

On 1 March 2021, the Company issued 267,267 Ordinary Shares to the Investment Adviser in relation to fees payable for the period ended 31 December 2020.

On 1 June 2021, the Company issued 262,589 Ordinary Shares to the Investment Adviser in relation to fees payable for the quarter ended 31 March 2021.

The Investment Advisory Agreement can be terminated by either party giving not less than six months' written notice.

The Investment Adviser's appointment will be automatically terminated upon termination of the Investment Manager's appointment under the Investment Management Agreement.

# Notes to the Financial Statements continued

## For the year ended 31 March 2021

### 10. RELATED PARTIES AND OTHER MATERIAL CONTRACTS CONTINUED

#### Other material contracts

##### Administrator

With effect from 28 January 2015, Praxis Fund Services Limited (the "Administrator") was appointed as the Administrator. With effect from 1 June 2016, the Administrator is entitled to receive from the Company a base fee calculated as follows and payable monthly:

- if the Company's NAV is less than £300 million, 0.07% per annum of the value of the Company's NAV; plus
- if the Company's NAV is more than £300 million and less than £400 million, 0.05% per annum of the Company's NAV not included above; plus
- if the Company's NAV is more than £400 million, 0.04% per annum of the Company's NAV not included above.

The base fee is subject to a minimum of £65,000 applied on a monthly basis and was capped at £300,000 per annum, subject to an annual inflation-linked increase (with effect from 1 May 2021: £312,728; with effect from 1 May 2020: £307,500; with effect from 1 May 2019: £300,000). The Administrator is also entitled to a fee for company secretarial services based on time costs.

The Administration Agreement can be terminated by either party giving not less than 90 days' written notice.

##### Subsidiary Administrator

With effect from 28 January 2015, TMF Luxembourg S.A. (the "Subsidiary Administrator") was appointed as the administrator of the Subsidiary. With effect from 1 January 2020, the Subsidiary Administrator is entitled to receive an annual fee from the Subsidiary of €55,107 (with effect from 1 January 2019: €26,344 per annum and, in addition, a fee for NAV reconciliation and reporting services based on time costs but capped at €6,150 per annum).

##### Custodian

With effect from 27 February 2015, the Bank of New York Mellon (the "Custodian") was appointed as the Custodian. The Custodian is entitled to receive fees, as agreed from time to time, for services provided as portfolio administrator, depositary, calculating agent, account bank and custodian.

The Custodian Agreement can be terminated by either party giving not less than 60 days' written notice.

The amounts charged for the above-mentioned fees during the year ended 31 March 2021 and outstanding at 31 March 2021 are as follows:

	Charge for the year £	Amounts outstanding at 31 March 2021 £
<b>Year ended 31 March 2021</b>		
Investment Adviser's fees	11,253,254	2,831,830
Administration fee	440,311	16,209
Investment Manager's fees	344,938	—
Directors' fees and expenses	246,127	—
Sub-administration fee <sup>1</sup>	50,703	14,013
Fees payable to the Custodian <sup>1</sup>	790,333	220,614
	<b>13,125,666</b>	<b>3,082,666</b>
	Charge for the year £	Amounts outstanding at 31 March 2020 £
Year ended 31 March 2020		
Investment Adviser's fees	10,165,841	2,599,692
Administration fee	425,066	15,972
Investment Manager's fees	344,933	—
Directors' fees and expenses	226,782	—
Sub-administration fee <sup>1</sup>	32,312	9,815
Fees payable to the Custodian <sup>1</sup>	681,282	209,716
	<b>11,876,216</b>	<b>2,835,195</b>

1. Includes expenses of both the Company and the Subsidiary.



## Overdraft facility

On 15 February 2016, the Company entered into an overdraft facility with the Royal Bank of Scotland International Limited with a limit of £1,500,000. As at 31 March 2021, this facility had not been utilised.

## Loan collateral

With effect from 18 December 2019, security for a revolving credit facility of £280 million (see note 15) with the Royal Bank of Scotland International Limited was provided by, inter alia, a charge over the bank accounts of the Company, a charge over the shares in the Subsidiary held by the Company and a charge on the assets of the Subsidiary.

## 11. TAX STATUS

The Company is exempt from Guernsey income tax and is charged an annual exemption fee of £1,200 under The Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989.

## 12. SHARE CAPITAL

The Company's Ordinary Shares and C shares are classified as equity. Incremental costs directly attributable to the issue of Ordinary Shares and C shares are recognised as a deduction in equity and are charged to the relevant share capital account, including the initial set-up costs.

The Company undertakes that it shall ensure that its records and bank accounts are operated in such a way that the assets attributable to the Ordinary Shares and the C shares can be separately identified. On the conversion of C shares to Ordinary Shares, C Shareholders shall be allocated an appropriate number of Ordinary Shares, calculated by reference to the conversion ratio.

The authorised share capital of the Company is represented by an unlimited number of shares of nil par value, to which the following rights are attached:

- (a) Dividends: Ordinary Shareholders and C Shareholders are entitled to receive, and participate in, any dividends or other distributions resolved to be distributed from their respective pools of assets in respect of any accounting period or other period, provided that no calls or other sums due by them to the Company are outstanding.
- (b) Winding Up: On a winding up, the Ordinary Shareholders and C Shareholders shall be entitled to the surplus assets remaining in their respective pools of assets after payment of creditors.
- (c) Voting: Ordinary Shareholders have the right to receive notice of and to attend, speak and vote at general meetings of the Company and each holder being present in person or by proxy shall upon a show of hands have one vote and upon a poll one vote in respect of every Ordinary Share held. C Shareholders have no right to attend or vote at any meeting of the Company, except that the consent of C Shareholders is required for any alteration to the Memorandum or Articles of the Company; for the passing of any resolution to wind up the Company; and for the variation or abrogation of the rights attached to the C shares.

The Company may acquire its own Ordinary Shares, up to a maximum number of 14.99% per annum of the Ordinary Shares in issue.

There were no C shares in issue during either the current or prior years.

Issued share capital Ordinary Shares	31 March 2021 Ordinary Shares Number	31 March 2020 Ordinary Shares Number
Share capital at the beginning of the year	1,654,671,448	1,060,975,849
Share capital issued and fully paid	108,449,262	593,695,599
<b>Total share capital at the end of the year</b>	<b>1,763,120,710</b>	1,654,671,448

# Notes to the Financial Statements continued

## For the year ended 31 March 2021

### 12. SHARE CAPITAL CONTINUED

Issued share capital Ordinary Shares	31 March 2021 Ordinary Shares £	31 March 2020 Ordinary Shares £
Share capital at the beginning of the year	1,719,065,509	1,072,031,030
Share capital issued and fully paid	114,157,400	655,705,218
Share issue costs	(1,366,764)	(8,670,739)
<b>Total share capital at the end of the year</b>	<b>1,831,856,145</b>	1,719,065,509

On 3 March 2021, the Company issued 104,513,064 Ordinary Shares through a Placing of Ordinary Shares at an issue price of 105.25p per Ordinary Share.

During the year, 801,376 Ordinary Shares have been issued to the Investment Adviser in relation to fees payable for the period from 1 April 2020 to 31 December 2020 (see note 10), at an average issue price of 105.09p per Ordinary Share. Subsequent to the year end, 262,589 Ordinary Shares were issued to the Investment Adviser at a price of 108.00p per Ordinary Share in relation to fees payable for the quarter ended 31 March 2021.

During the year, 3,134,822 Ordinary Shares were issued in respect of scrip dividends totalling £3,315,258. Subsequent to the year end, the Company issued 1,561,473 Ordinary Shares to Shareholders at a price of 106.48p per Ordinary Share as a scrip dividend alternative in respect of the dividend declared on 20 April 2021.

### 13. BASIC AND DILUTED EARNINGS PER SHARE

	Year ended 31 March 2021	Year ended 31 March 2020
Profit/(loss) for the financial year	£209,957,804	£(65,361,405)
Weighted average number of Ordinary Shares	1,664,130,350	1,298,389,127
<b>Basic and diluted earnings/(loss) per Ordinary Share</b>	<b>12.62p</b>	(5.03)p

The weighted average number of Ordinary Shares is based on the number of Ordinary Shares in issue during the year under review, as detailed in note 12.

There was no dilutive effect for potential Ordinary Shares for the year ended 31 March 2021.

### 14. TRADE AND OTHER RECEIVABLES

	31 March 2021 £	31 March 2020 £
VFN income receivable	107,623,905	88,878,671
Prepaid finance costs	375,430	1,074,022
Other prepaid expenses	62,631	55,641
	<b>108,061,966</b>	90,008,334

## 15. LOAN PAYABLE

On 6 December 2017, the Company executed a 36-month £100 million multi-currency revolving credit facility ("RCF") with the Royal Bank of Scotland International Limited ("RBSI") as lead arranger. On 9 August 2018, the Company exercised a £50 million incremental accordion tranche of the RCF, with the same maturity date as the initial RCF. During the prior year, the facility was extended by a further £130 million to £280 million and the maturity date extended by a year to 6 December 2021. The proceeds of the loan are to be used in or towards the making of investments in accordance with the Company's investment policy. The loan is secured by, inter alia, a charge over the bank accounts of the Company, a charge over the shares in the Subsidiary held by the Company and a charge on the assets of the Subsidiary. Should the value of the underlying assets held in the Subsidiary fall below a certain level, further margin calls may be made by RBSI, however no margin calls were made during the year. Interest on the loan was charged at a rate of LIBOR (or EURIBOR for any loan denominated in Euro) plus 2.1% per annum. Loan interest of £3,358,494 (2020: £5,262,292) and upfront, facility and break fees of £736,092 (2020: £589,471) have been incurred on the loan during the year.

	For the year ended 31 March 2021		
	GBP facility GBP	USD facility GBP	Total GBP
Balance brought forward	35,000,000	—	35,000,000
Drawdowns	162,300,000	12,883,485	175,183,485
Repayments	(125,000,000)	—	(125,000,000)
Foreign exchange revaluations	—	(1,289,282)	(1,289,282)
<b>Balance carried forward</b>	<b>72,300,000</b>	<b>11,594,203</b>	<b>83,894,203</b>

	For the year ended 31 March 2020		
	GBP facility GBP	USD facility GBP	Total GBP
Balance brought forward	60,000,000	53,875,164	113,875,164
Drawdowns	373,305,000	77,006,769	450,311,769
Repayments	(398,305,000)	(132,944,054)	(531,249,054)
Foreign exchange revaluations	—	2,062,121	2,062,121
<b>Balance carried forward</b>	<b>35,000,000</b>	<b>—</b>	<b>35,000,000</b>

The carrying value of the loan is considered to be a reasonable approximation of its fair value.

## 16. TRADE AND OTHER PAYABLES

	31 March 2021 £	31 March 2020 £
Investment Advisory fee payable	2,831,830	2,599,692
Loan interest payable	199,116	145,605
Other payables	456,861	394,897
	<b>3,487,807</b>	<b>3,140,194</b>

# Notes to the Financial Statements continued

## For the year ended 31 March 2021

### 17. COMMITMENTS

As at 31 March 2021, £62.7 million (2020: £86.0 million) was committed by the Subsidiary to new or existing investments. These commitments will be settled from the existing cash reserves of the Company and the Subsidiary and through drawdowns from the Company's revolving credit facility.

### 18. SUBSEQUENT EVENTS

On 20 April 2021, the Company declared an interim dividend of 1.5625p per Ordinary Share in respect of the quarter ended 31 March 2021. The dividend was paid on 8 June 2021.

On 1 June 2021, the Company issued 262,589 Ordinary Shares to the Investment Adviser at a price of 108.00p per share in relation to fees payable for the quarter ended 31 March 2021.

On 1 June 2021, the Company issued 1,561,473 Ordinary Shares to Shareholders at a price of 106.48p per Ordinary Share as a scrip dividend alternative in respect of the dividend declared on 20 April 2021.

On 29 June 2021, the Company announced the appointment of Sarika Patel as a non-executive Director of the Company with effect from 4 August 2021, following the conclusion of the Company's 2021 AGM.

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



# Appendix

## ALTERNATIVE PERFORMANCE MEASURES USED IN THE ANNUAL REPORT

### Portfolio yield-to-maturity/gross portfolio return

Portfolio yield-to-maturity is the total annualised return anticipated on a portfolio of interest-bearing investments, discounted for the time value of money and based on the assumption that the investments are held to their maturity. This provides a useful measure of likely projected returns on a portfolio.

### NAV per Ordinary Share

NAV per Ordinary Share is a calculation of the Company's NAV divided by the number of Ordinary Shares in issue and provides a measure of the value of each Ordinary Share in issue.

### Ordinary Share (discount)/premium to NAV

Ordinary Share (discount)/premium to NAV is the amount by which the Ordinary Share price is lower/higher than the NAV per Ordinary Share, expressed as a percentage of the NAV per Ordinary Share, and provides a measure of the Company's share price relative to the NAV.

### Internal rate of return ("IRR")

Internal rate of return is a calculation of the prospective or retrospective annualised profitability of an investment over a number of years, the IRR being the discount rate that would make the net present value of the actual or potential cash flows from the investment equal to zero. This provides a useful measure of the profitability of an investment, on either a NAV or share price basis.

### Total NAV/share price return

Total NAV return/total share price return are calculations showing how the NAV/share price per share has performed over a period of time, taking into account dividends paid to Shareholders. It is calculated on the assumption that dividends are reinvested at the prevailing NAV/share price on the last day of the month that the shares first trade ex-dividend. This provides a useful measure to allow Shareholders to compare performances between investment funds where the dividend paid may differ.

		Year ended 31 March 2021	
		Total NAV return	Total share price return
Opening NAV/share price per share		96.69p	94.00p
Closing NAV/share price per share	(a)	103.18p	104.20p
Dividends paid	(b)	6.25p	6.25p
Weighted average NAV/share price per share on month end ex-dividend	(c)	98.60p	105.10p
Dividend adjustment factor ( $d = b / c + 1$ )	(d)	1.0634	1.0595
Adjusted closing NAV/share price per share ( $e = a \times d$ )	(e)	109.72p	110.40p
<b>Total NAV/share price return</b>		<b>13.5%</b>	<b>17.4%</b>

# Appendix continued

## Cash dividend cover

Cash dividend cover is the ratio of a company's operating cash flow divided by its total dividend payments, and is used as a measure of the extent to which a company is able to generate sufficient cash flow to pay its dividends.

For the financial year 2021 the dividend cash cover calculation is as follows:

Item	Amount (£m)
Cash interest received	107.41
Consent fees received in cash	2.92
Prepayment fees	1.93
Upfront fees/discounts amortised	10.70
Cash expenses	(18.40)
<b>Net cash income</b>	<b>104.56</b>
Dividend paid	100.17
<b>Dividend cash cover</b>	<b>1.04x</b>

## Ongoing charges ratio ("OCR")

The ongoing charges ratio of an investment company is the annual percentage reduction in shareholder returns as a result of recurring operational expenditure. Ongoing charges are classified as those expenses which are likely to recur in the foreseeable future, and which relate to the operation of the company, excluding investment transaction costs, financing charges and gains or losses on investments. The OCR is calculated as the total ongoing charges for a period divided by the average net asset value over that period.

	Year ended 31 March 2021			Year ended 31 March 2020		
	The Company £	The Subsidiary £	Total £	The Company £	The Subsidiary £	Total £
Total expenses	18,475,469	904,324	19,379,793	18,993,666	655,453	19,649,119
Non-recurring expenses	(4,826,872)	—	(4,826,872)	(6,315,226)	—	(6,315,226)
Total ongoing expenses	13,648,597	904,324	14,552,921	12,678,440	655,453	13,333,893
Average NAV			1,663,645,419			1,385,345,942
Ongoing charges ratio (using AIC methodology)			0.87%			0.96%

# Officers and advisers

## DIRECTORS

Robert Jennings, CBE  
(Independent non-executive Chair)

Sandra Platts  
(Senior Independent non-executive Director)

Jan Pethick  
(Independent non-executive Director)

Jon Bridel  
(Independent non-executive Director)

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Kate Thurman

# Officers and advisers continued

## DISCLOSURE OF DIRECTORSHIPS IN PUBLIC COMPANIES LISTED ON RECOGNISED STOCK EXCHANGES

The Directors hold the following directorships in other public companies:

Company name	Stock Exchange
<b>Robert Jennings</b>	
3i Infrastructure plc	London Stock Exchange – Main Market
<b>Sandra Platts</b>	
NB Global Floating Rate Income Fund Limited (resigned 14 June 2021)	London Stock Exchange – Main Market
Taylor Maritime Investments Limited (appointed 28 April 2021)	London Stock Exchange – Main Market
UK Commercial Property REIT	London Stock Exchange – Main Market
Marble Point Loan Financing Limited	London Stock Exchange – SFS
<b>Jan Pethick</b>	None
<b>Jon Bridel</b>	
DP Aircraft 1 Limited	London Stock Exchange – SFS
Fair Oaks Income Limited	London Stock Exchange – SFS
SME Credit Realisation Fund Limited (in wind-down)	London Stock Exchange – Main Market
The Renewables Infrastructure Group Limited	London Stock Exchange – Main Market

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**ABOUT SEQUOIA ECONOMIC  
INFRASTRUCTURE INCOME  
FUND LIMITED**

The Company seeks to provide investors with regular, sustained, long-term distributions and capital appreciation from a diversified portfolio of senior and subordinated economic infrastructure debt investments. The Company is advised by Sequoia Investment Management Company Limited.



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