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# Diversified Sustainable Income

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Annual Report and Accounts  
2022



# Our purpose

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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.

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



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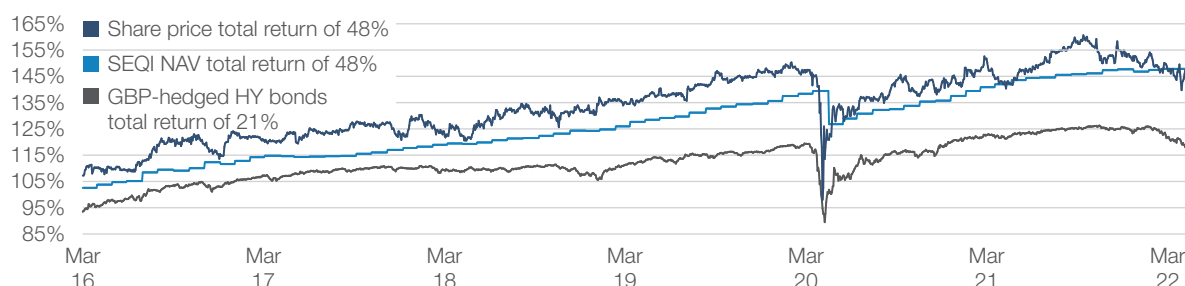
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## TOTAL RETURN SINCE THE INCEPTION OF THE COMPANY TO 31 MARCH 2022



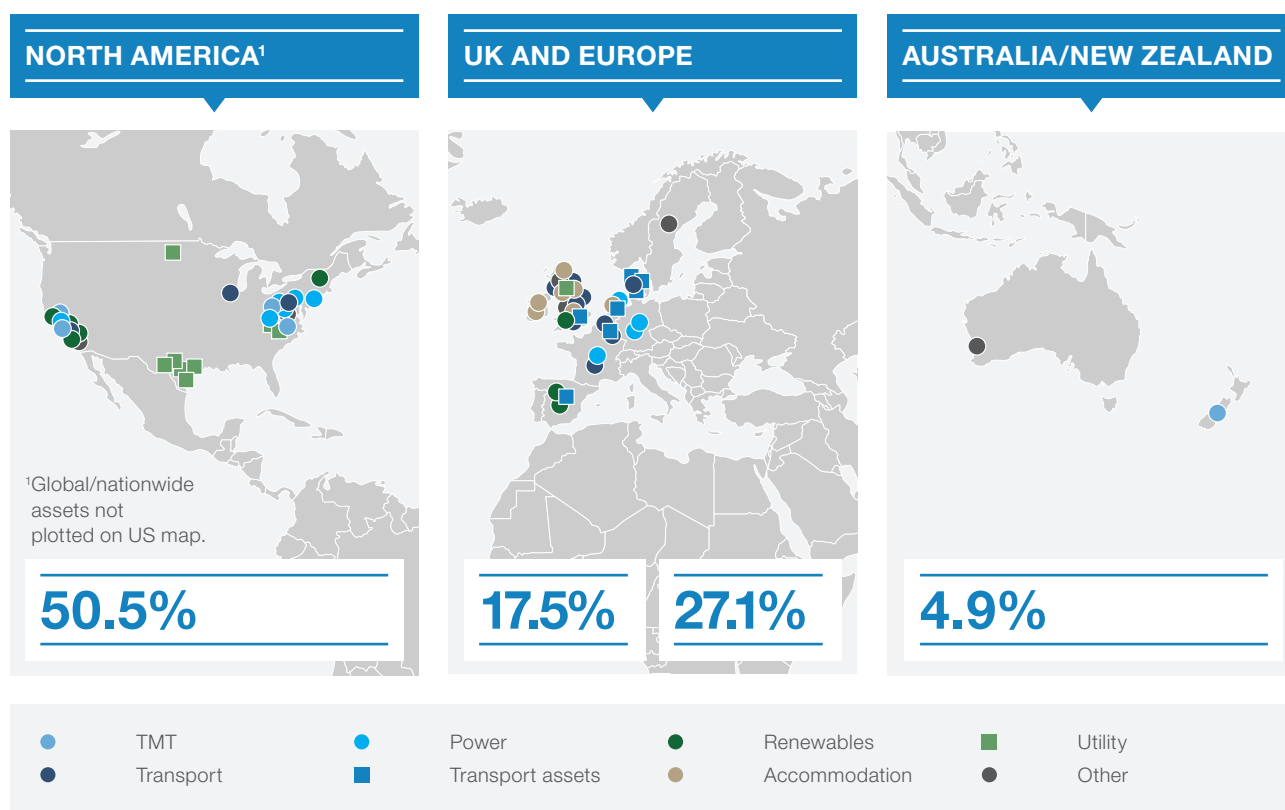


# At a glance

Diversified infrastructure fund with 66 private debt investments and 10 bonds across 8 sectors, 29 sub-sectors and 12 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.



76

Investments

£23.7m

Average investment

£64.7m

Largest investment

8.4%

Portfolio yield-to-maturity

## SECTORS

### TMT

- Data centres | 10.5%
- Broadband | 7.4%
- Telecom towers | 6.3%
- Undersea cables | 3.2%
- Satellite services | 0.4%

27.8%



### TRANSPORT

- Ferries | 2.9%
- Rail | 2.8%
- Port | 2.4%
- Road | 0.1%

8.3%



### POWER

- Electricity transition | 8.2%
- Base load | 7.8%
- Energy efficiency | 2.1%
- PPA | 0.7%

18.9%



### TRANSPORT ASSETS

- Specialist shipping | 6.5%
- Rolling stock | 3.2%
- Aircraft | 1.3%

11.0%



### RENEWABLES

- Solar and wind | 4.6%
- Landfill gas | 3.5%
- Hydro | 1.0%

9.1%



### ACCOMMODATION

- Healthcare | 3.6%
- Student housing | 1.5%

5.1%



### UTILITIES

- Midstream | 5.1%
- Electricity supply | 1.5%

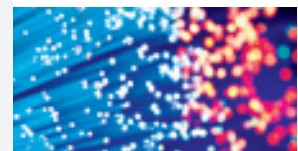
6.6%



### OTHER

- Residential infrastructure | 4.4%
- Hospitality | 2.2%
- Refinery | 2.1%
- Agricultural infrastructure | 1.7%
- Private schools | 1.7%
- Smart metering | 1.1%

13.2%



# Objectives 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, subject to the investment criteria as set out in the investment policy.



## INVESTMENT POLICY

The Company’s investment policy is to invest in a portfolio of loans, notes and bonds in which no more than 10% by value of the Fund’s net asset value (at the time of investment) relates to any one individual infrastructure asset. In addition, the Company intends to invest directly or indirectly only in investments that satisfy the following criteria, such investments to make up a minimum of 80% by value of the portfolio at the time of investment:

- all or substantially all of the associated underlying revenues to be from business activities in the following market sectors: transport, transportation equipment, utilities, power, renewable energy, accommodation infrastructure and telecommunications, media and technology infrastructure;
- all or substantially all of the revenues to derive from certain eligible jurisdictions, as defined in the Company’s Prospectus, provided that any such jurisdiction is rated at least BBB- by Standard & Poors or Baa3 by Moody’s;
- at least 50% of the portfolio to be floating rate or inflation-linked debt;
- no more than 20% of the portfolio to comprise pre-operational projects (typically projects in construction);
- no single sector to represent more than 40% of total assets;
- no single sub-sector to represent more than 15% of total assets, other than a major sub-sector (as defined in the prospectus), which may represent up to 25% of total assets;
- no more than 60% of the portfolio to be located in the United States;
- no more than 50% of the portfolio to be located in the Western Europe (ex-UK);
- no more than 40% of the portfolio to be located in the United Kingdom; and
- no more than 20% of the portfolio to be located in Australia and New Zealand combined.



## ESG POLICY

The Company takes its corporate and social responsibilities seriously. As part of its sustainability strategy, it 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.



## 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). 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.

# Future strategic direction

While the core strategy remains the same, the Fund is constantly evolving to reflect the economic and market environment it operates in, and to achieve the goals of its ESG Policy.

**As the Company enters its eighth year of operations, it will continue to focus on its core mandate of delivering a stable NAV and predictable dividends to its investors, achieved by investing in a diverse portfolio of loans backed by infrastructure projects. Like all businesses, its strategy will reflect market conditions and the opportunities open to it. Below we set out some of themes that will shape the Company in the future.**

## INCREASING INTEREST INCOME

As short-term interest rates continue to rise in the currencies that we invest in (mostly Sterling, Euros and US Dollars), the income that the Company earns from its investment portfolio will increase. This is because approximately half of the portfolio is floating-rate loans, where the interest rate will increase contractually. The other half, the fixed rate loans, will not benefit directly, but over time these loans will mature and will be replaced by new loans whose pricing will reflect today's higher interest rate environment.

These higher interest rates will, all things being equal, result in an improvement in the cash dividend cover ratio. Over time, this may lead to NAV growth, or the opportunity to increase the dividend, or both.

## MAKING A POSITIVE IMPACT

The Company has a clear ESG Policy – described elsewhere in this report – that is a central part of how we allocate our capital. That will continue to be the case. In the future, though, we also want to engage more with the companies that we lend money to, encouraging them to improve their corporate governance, to take their social responsibilities seriously and to reduce their impact on the environment, including the emission of greenhouse gases.

In addition, the Company itself will have an increasing responsibility to report on its own environmental impact. This year, for the first time, we include a report following the recommendations of the Task Force for Climate Disclosures ("TCFD"). We were already reporting our own in-house ESG Score for our investment portfolio. In the future we will widen the scope of our reporting to include additional quantitative measures.

## FUTURE DIRECTION OF THE PORTFOLIO

Currently there are global inflationary pressures which are leading to higher interest rates. This creates economic uncertainty and a heightened risk of recessions. To address this we are looking to position our investment portfolio cautiously, by focusing on loans to companies that have predictable cash flows, often arising from contractual income, regulation or barriers to entry. We are also prioritising senior ranking loans over subordinated debt, as well as floating over fixed rate loans.

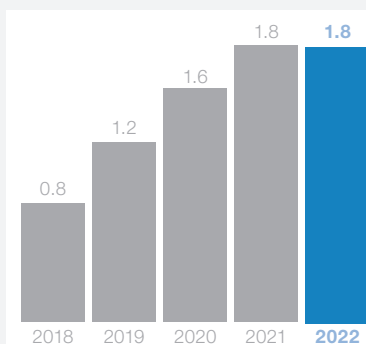
In terms of the sectors that we lend to, we aim to maintain a diversified, balanced portfolio. But that is not to say there will be no changes. We have already stopped lending to some sectors (such as coal) as the result of our ESG policy. Instead we have invested in new areas like energy efficiency projects and high-speed broadband for residential properties.



# Key performance indicators

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

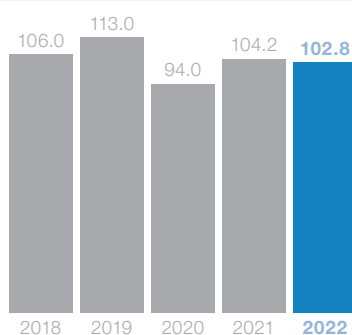
## MARKET CAPITALISATION (£B)



### Description:

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

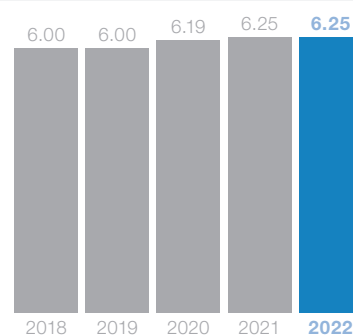
## SHARE PRICE (P)



### Description:

Share price total return of +48% since IPO, outperforming GBP-hedged high yield bonds (+21%)

## ANNUAL DIVIDEND PER ORDINARY SHARE (P)



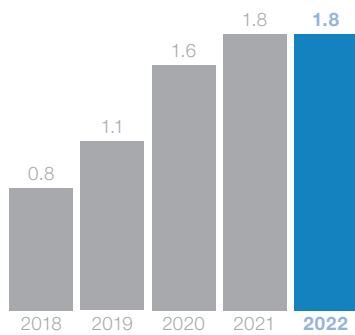
### Description:

Dividend target held at 6.25p per annum for our financial year 2022/23





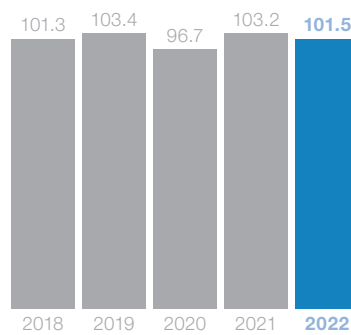
## NAV (£B)



### Description:

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

## NAV PER ORDINARY SHARE (P)



### Description:

NAV total return of +48% since IPO, outperforming GBP-hedged high yield bonds (+21%)

## ESG SCORE



### Description:

ESG score increased through implementation of the Company's ESG strategy

1. ESG score is included in the scope of KPMG LLP's limited assurance (see [www.seqifund.com/investors/documents-circulars](http://www.seqifund.com/investors/documents-circulars)).



# Highlights

Our economic infrastructure portfolio is well positioned for a higher interest rate environment.

## HIGHLIGHTS FOR THE YEAR ENDED 31 MARCH 2022

NAV total return<sup>1</sup> of 3.5% (2021: 13.5%) in the year

Annualised portfolio yield-to-maturity<sup>1</sup> of 8.4% (2021: 9.0%) as at 31 March 2022

Share price total return<sup>1</sup> of 4.5% (2021: 17.4%) in the year

Ongoing charges ratio of 0.87% (2021: 0.87%) (calculated in accordance with AIC guidance)<sup>1</sup>

**Defensive, diversified portfolio of 76 investments across 8 sectors, 29 sub-sectors and 12 mature jurisdictions**

Dividends totalling 6.25p per Ordinary Share (2021: 6.25p) paid during the year, in line with annual target dividend

- 95% of investments in private debt (2021: 97%)
- 50% floating rate investments (2021: 57%), capturing short-term rate rises
- Short weighted average life of 4.1 years (2021: 4.5 years) creating reinvestment opportunities
- Weighted average equity cushion of 33% (2021: 35%)

Dividend cash cover<sup>1</sup> of 1.06x (2021: 1.04x)

ESG score of the portfolio is on a long-term upward trend



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

## FINANCIAL HIGHLIGHTS

**£1,777,042,832**

Total net assets (31 March 2021: £1,819,130,381)

▼  
2.3%

**100.50p**

Net asset value ("NAV") per Ordinary Share<sup>1,2</sup> (31 March 2021: 103.18p)

▼  
2.6%

**102.80p**

Ordinary Share price<sup>2</sup> (31 March 2021: 104.20p)

▼  
1.3%

**2.3%**

Ordinary Share premium to NAV<sup>1</sup> (31 March 2021: 1.0%)

▲  
130%

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



# Chair's statement



**ROBERT JENNINGS**  
Chair



The Company has demonstrated its resilience throughout the challenges of the last two years.

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 2022.

The first half of the financial year saw global economies emerging from lockdowns and improving market conditions despite continuing uncertainty. This uncertainty markedly increased over the course of the second half of the financial year with rising global inflation and interest rates concerns as well as the Russian invasion of Ukraine. Against the backdrop of increased market volatility, the Company has remained resilient and the Board and the Investment Adviser have remained focused on managing the portfolio and the deployment of capital into attractive new loans.

## NAV AND SHARE PRICE PERFORMANCE

Over the financial year, the Company's NAV per Ordinary Share decreased from 103.18p to 100.50p, after paying dividends of 6.25p, producing a NAV total return of 3.5%<sup>1</sup>, lower than the Company's target return of 7-8%. This is compared to the Company's prior year outperformance, when NAV per Ordinary Share 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.

The Company's share price also declined over the year, from 104.20p to 102.80p, a share price total return<sup>1</sup> of 4.5%, once dividends are taken into account. The slight fall in the share price reflects the decline in the NAV, offset slightly by improvement in the Company's premium, which increased from 1.0% at the beginning, to 2.3% by the end of the year.

Against the backdrop of rising interest rates across the yield curve, particularly over the final quarter of our financial year, this is a solid performance. We have once again outperformed the liquid credit markets and are now experiencing a pick up in income on our floating rate assets. In time we anticipate that the same will occur in the fixed rate section of our portfolio, as existing fixed rate loans repay and are replaced by new loans reflecting higher market interest rates.

## DIVIDEND

Pleasingly, despite the volatility experienced over the year, we achieved our target of paying a fully cash-covered dividend of 6.25p per Ordinary Share. It is our intention for now to hold the payout at its current level, notwithstanding that our interest income is increasing and we anticipate a further strengthening in our dividend cash cover ratio.

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



## PORTFOLIO PERFORMANCE

Most of our portfolio has performed well over the course of the year, with many sectors previously adversely affected by COVID-19 improving materially. Specifically, the Company's exposures to the transportation sector (excluding aviation), student accommodation and midstream assets all improved in credit quality, while other sectors such as telecommunications and healthcare infrastructure remained robust.

Of the four underperforming investments identified a year ago, three have improved to the point where they are no longer of concern and their increase in valuation contributed 0.70p per share to the NAV performance. Unfortunately, two other investments have experienced difficulties over the last 12 months, namely Bulb Energy and Salt Lake Potash. The effect of writing down the valuation of these underperforming investments (together with the loan backed by a school in Washington, D.C.) to their current fair values was to reduce NAV by 2.50p per share.

However, our experience has been that, upon eventual recovery from these types of situations, the fair values of the investments tends to exceed the valuations assigned to them during the restructuring or work-out phases

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

Credit losses are a natural part of running a loan portfolio. It would be naïve to imagine that the Company could keep lending money in perpetuity without experiencing some bad debts. Now that the Company has been operating for seven years, in both economically benign and challenging times and through a period of macro-economic stress, it is instructive to assess the portfolio's historic loss rate, i.e. annualised credit losses, expressed as a percentage of the loan book. To be conservative we include losses arising not just from loans that default, but also from situations where we sell a loan (at a loss) to avoid further deterioration. Intuitively, the loss rate can be thought of as a reduction in the yield of the portfolio.

In our case, the loss rate is 0.15% if we just look at realised losses, or 0.36% if we include potential, but as yet unrealised, losses on the credit-impaired loans. We consider this to be exceptionally low. For comparison, research by Moody's implies that the loss rate for bank lending to infrastructure projects has historically been 0.1% to 0.15% per annum. However, that is in the context of investment grade, or borderline investment grade, loans, on which the typical yield is c.2.5% over LIBOR/SONIA or less. Our portfolio has yielded about 3.5% more than that, with similar credit losses, resulting in a high level of relative outperformance.

During the financial year, the Investment Adviser has had a highly selective approach to new investments. 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 businesses with a high degree of contractual income. We have also avoided drawing too much on the Fund's revolving credit facility ("RCF") – in part, because having no or little net leverage is clearly prudent in turbulent markets.

# Chair's statement continued



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

This year has seen continued progress on the development of the Company's approach to ESG. We have focused on applying the comprehensive ESG policies which we published in June 2021 across our portfolio including on all new loan reviews. We are currently further developing these and expect to publish an update of our policies shortly. Our policies already set out 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 also continue to report under Article 8 of the EU Sustainable Finance Disclosure Regulation (“SFDR”) directive.

For the second year running we have mandated KPMG LLP to provide independent limited assurance of our portfolio's overall ESG score, which we believe is indicative of our intention to raise standards of rigour in the qualification of ESG credentials across portfolios of loans.

Overall, the portfolio has shown progression from an average score of 60.59 to 61.88. A significant number of the lowest-scoring loans have been sold or allowed to roll off at their maturity, and new investments generally score higher than the ones they replace. We expect this trend to continue, and believe that our scoring framework will allow us to continue to allocate more capital towards sectors and borrowers who demonstrate appropriate environmental, social or governance characteristics.

However, this is not always the case. We are a facilitator of change and as such are willing to support borrowers with programmes to improve their ESG performance, including transition measures to reduce their carbon emissions. This can take the form of having ESG requirements as a condition to making a loan, and including appropriate ESG covenants in our loan agreements. We also provide capital with the explicit goal of driving change – such as financing energy efficiency investments, or projects to reduce the greenhouse gas emissions of existing assets. It should be noted that in some cases this might mean that we are making investments with quite a low ESG score to begin with, but on the expectation that our capital will be used to improve the borrower's ESG profile over time.

As noted in my review last year, the Board wrote to all the Company's key service providers to request information about the management of their carbon footprints and the steps they are taking to reduce these over time. We were greatly encouraged to discover that the majority of our larger key service providers have already set up impressive programmes to monitor and reduce their carbon intensity.

But our engagement revealed that some of our smaller key service providers have not yet developed comprehensive net zero plans. Moreover, even though as a company we have no employees and no office and engage only non-executive directors and consultants, the fulfilment of these roles involves activities such as air travel to and from Guernsey, which undoubtedly causes carbon emissions, albeit emissions that are unavoidable at this time.





We have therefore felt it appropriate to undertake an exercise to quantify the Company's carbon footprint. We estimate this at just under 180 tons of CO<sub>2</sub> per annum. This estimate allows for the emissions arising from our Directors and Consultants and from personnel in our smaller service providers whose carbon reduction plans are less developed in the fulfilment of their respective duties for the Company. We have also allowed for the full estimated emissions of our Investment Advisory team notwithstanding that they have their own programmes for monitoring, mitigating and offsetting. We therefore consider that our estimate of 180 tons in reality overstates our true carbon footprint.

Using measures which are independently verified as incremental, measurable, permanent and closely monitored by industry leading practitioners, we have committed to invest £15,000, which should be sufficient to offset the Company's estimated emissions for our financial years to 31 March 2022, 31 March 2023 and the first part of the year ending 31 March 2024. To finance this commitment, our Investment Adviser has agreed to donate half of the cost, and our Directors and Consultants each agree to forego on a continuing basis one per cent of fees due to each of them with effect from 1 April 2022.

The Company is currently in discussion with its smaller key service providers and we anticipate that they too will agree to make a contribution to our carbon offsetting initiative. Going forward, it is the strong intention of the Board, with full support from our Investment Adviser, that the Company should remain a carbon neutral organisation.

Particulars of the initiatives we have chosen to support in order to offset our estimated emissions are provided in the ESG section of our website. We also explain there how we have estimated the level of our emissions and why we consider that our estimate exceeds the likely true level of these.

Overall, I continue to believe that in the context of an infrastructure debt-focused fund the policies that our Investment Adviser is operating and is developing further place us at the forefront of ESG thinking.

# Chair's statement continued



## BOARD SUCCESSION PLANS

I would like to thank Jon Bridel and Jan Pethick, who have diligently served as Directors of the Company since before the IPO, and who are now both stepping down at this year's Annual General Meeting ("AGM").

They have brought many years of experience to the Board and they have contributed significantly to the Company's success.

In previous Chair's statements, I have discussed Board succession planning and I would now like to introduce James Stewart and Tim Drayson, who both joined the Board in January 2022, having previously had distinguished careers in infrastructure and the debt capital markets respectively. James was Vice Chair of KPMG LLP and chair of its Global Infrastructure Practice; before that he was the Chief Executive of Infrastructure UK and of Partnerships UK. And in the early part of his career in investment banking, he gained considerable experience as a leading Project Finance practitioner.

Tim was the Global Head of Corporate Sales, and Deputy Head of the European Corporate Debt platform at BNP Paribas. Tim arrived on the Board with significant prior knowledge of the Company, as he was previously an independent consultant to the Board. Replacing him in that role is Andrea Finegan, who until recently was the Chief Operating Officer of Greencoat.

Profiles of the Board and our consultants are on pages 58 to 61.

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. Accordingly, over the last six months we have operated with a larger Board during the transition period. Going forward, given the growth of our portfolio since launch, we consider a five to six person Board more appropriate, as it allows us to draw on a wider experience base and it offers additional resources and offers greater scope to promote diversity.

## OUTLOOK

We are taking full account of the risks – and opportunities – that higher inflation may present. In general, a moderate amount of inflation is helpful for the credit quality of the companies that we lend to. This is because in many cases these companies are able to increase their revenues more or less in line with inflation, while their debts remain the same in nominal terms. In other words, inflation reduces the real amount of leverage that our borrowers have. There, however, is a risk, currently exacerbated by high energy prices and the ongoing consequences of Russia's invasion of Ukraine, that central banks decide to address inflation aggressively, reducing growth in the economy or even triggering a recession and a period of stagflation.

While we do not welcome recessionary pressures in any of the countries where we hold investments, the resilience of our borrowers to recession is one of the most important factors that our Investment Adviser evaluates in its loan assessment processes.



We are also mindful that interest rates are increasing and are likely to continue to do so. As noted above, an increase in short-term interest rates is positive for the portfolio, given the high level of floating rate debt held. While increases in longer-term interest rates are likely to have the effect of temporarily decreasing NAV, since the values of fixed-rate loans decline, they too should eventually be positive for the Company, since reinvestment opportunities will offer higher interest rates, and prices of existing fixed-rate loans will pull to par as they get closer to maturity. We therefore believe that overall the portfolio is well positioned for an increasing interest rate environment.

Considering this outlook for interest rates, the Board and Investment Adviser have reflected on how best to take advantage of the opportunity that this gives us.

For now we consider our priorities to be:

- to maintain our dividend payout at its current level while increasing our cash cover ratio;
- to continue to invest in new loans with somewhat higher credit quality metrics and/or somewhat stronger ESG credentials than our current portfolio averages; and
- to retain a significant level of head room on our revolving credit facility.

We believe that this cautious approach is appropriate given current pessimism regarding the outlook for OECD economies and that it will position us well to continue delivering attractive and sustainable returns for Shareholders. We will also monitor our share price closely and, if appropriate, may from time to time engage in limited buy backs when there seems to be an unwarranted level of discount to NAV.

I would like to end by noting that the Company has demonstrated its resilience throughout the challenges of the last two years and that with our well diversified portfolio, growing interest income and disciplined approach to capital deployment, we believe we are well positioned for the future.

## ROBERT JENNINGS

Chair

8 July 2022



# 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 29 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 Fund's portfolio consists of bilateral loans and club deals, for which the Investment Adviser negotiated favourable terms for the Fund to optimise its risk-adjusted returns.



## SECTORS IN WHICH WE INVEST

### 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 Fund 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 which enhances 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.

### 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 2021, countries worldwide continued to pursue decarbonisation plans, despite 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 Fund 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 ("ITCs") in the US.

## ACCOMMODATION

In the accommodation sector, the Fund 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 Fund also invests in selective student housing opportunities in countries where there are student housing shortages, such as the Netherlands. The Fund is able to achieve attractive risk-adjusted returns in those jurisdictions.

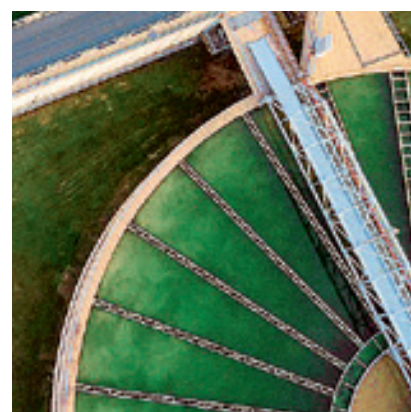
## TECHNOLOGY, MEDIA AND TELECOMMUNICATIONS ("TMT")

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 the world has 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. The Fund'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.

## TRANSPORT AND TRANSPORTATION EQUIPMENT

In the transportation sector, the Company lends to long-term assets such as roads, ports, airports and railways. These sub-sectors benefit from high barriers to entry and may have quasi-monopolistic characteristics. Typically the Company's loans are serviced by the revenues that the assets generate through their usage, which may be either regulated or operate in the open market.

In the transportation assets sector, the Company finances rolling stock, aircraft and shipping. These types of assets typically have a high replacement cost and a long economic life. In many cases, these assets will be on medium or long-term leases with operators (e.g. a train operator) which provides a high degree of certainty of income.



# 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 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 APPROVAL PROCESS

- 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")
- Investment Committee minutes and material credit documentation are submitted to the AIFM for detailed review and referred to the Investment Manager or the Board as appropriate for approval and sign-off

## RISK MANAGEMENT

### Credit review framework

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

### Risk Committee

Committee is comprised of independent non-executive Directors. Read more on page 66.

### Independent AIFM Risk Manager

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

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



## STEP 2

### INITIAL SCREENING

- Eliminate assets unlikely to pass investment approval, including review of ESG credentials
- Identify strong credits for inclusion in shortlist for full analysis

## STEP 3

### DETAILED CREDIT ANALYSIS

- Due diligence and credit process
- Site visits, 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

## SUSTAINABILITY

### Financial

The Company's NAV performance and dividend cover can be found on pages 25 and 26.

### Governance

Details of the Company's governance framework and the activities of the Board during the year can be found on pages 62 to 67.

### 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 34 to 47.

## FINANCIAL OUTCOMES

### 6.25p

The Company has paid a dividend of 6.25p per share for the financial year, in line with its target.

### £1.80 billion

The Fund's investment portfolio was valued at c.£1.80 billion at the year end.

### 1.06x

The Company's cash dividend cover for the financial year was 1.06x.

### 4.5%

Total share price return<sup>1</sup> for the year was 4.5%.

## 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 62 to 67.

### 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 70 to 72.

# Q&A with the Investment Adviser

## HAS THE COMPANY'S OVERALL RISK INCREASED THIS YEAR?

We believe that, overall, portfolio risk has decreased during the course of the year.

This is the consequence of three changes – the first two of which are economic factors, and the third one is a decision that we made:

- firstly, several parts of the economy that were shut down – or at least curtailed – by COVID-19 have reopened. From our perspective the important ones are transportation and student accommodation. This has directly led to some underperforming investments turning around quite rapidly;
- secondly, higher energy prices are directly beneficial for electricity generation and midstream assets and only indirectly negative for some other sectors such as transportation; and
- thirdly, for the past few years – actually since before the COVID-19 pandemic – we have had a cautious view of the global economy and have shunned higher-risk lending opportunities, in favour of more defensive loans, where the companies that we lend to typically benefit from high levels of contractual income, good asset backing, high barriers to entry, or business models that have a low correlation to the economic cycle.

Of course, any portfolio of loans is likely to have some borrowers with difficulties. In last year's Annual Report we discussed four such underperforming loans – of those, three have improved to the point where they are no longer of concern; only one of last year's problem loans remains. Although two new loans have been added to the list in the past 12 months, the total number of problem positions has shrunk from four to three and the percentage of NAV halved from 10% to 5%.



## WHY HAS THE PORTFOLIO YIELD DECLINED THIS YEAR?

The portfolio yield is the sum of two components, averaged across investments: interest rates (i.e. LIBOR, SONIA, SOFR or government bond yields, as appropriate to the loan in question) and credit spreads (i.e. incremental yield needed as compensation for risk).

Since portfolio risk has declined (as discussed in the previous question), credit spreads have also reduced. In particular, by avoiding high-yielding but potentially risky loans, the Company has made the conscious decision to accept a lower yield for the time being. The Investment Adviser believes that in the current market environment this is the correct course of action.

The portfolio yield of 8.4% is within our target range (8% to 9%) and is more than adequate to cover the dividend. Moreover, as interest rates increase, the portfolio yield should also rise, given that approximately half the portfolio consists of floating rate loans.

On a technical note, this year we have not included the theoretical yield to maturity on our three underperforming loans. These loans have very high yields – reflecting their risk – but given that their outcome is uncertain, we believe it is prudent to exclude them from the calculation of the weighted average yield on the portfolio. In previous years we included this type of loan – the effect of excluding them has been to reduce the weighted average yield by about 0.7%.



## HOW IS THE COMPANY AFFECTED BY INFLATION AND HIGHER INTEREST RATES?

The portfolio's direct correlation to inflation remains low – none of our loans has an interest rate that is mechanically linked to inflation. However, there is an indirect correlation, as higher inflation is leading to higher policy interest rates. This is helpful, given that about 50% of the portfolio consists of floating rate loans – in broad terms, if interest rates increase by 1%, then portfolio income would increase by about 0.5% per annum, although in some cases interest rates would need to rise above a “floor” (i.e. a minimum interest rate) embedded in

the loan agreement before this increase can take effect. In relation to fixed rate loans, higher long-term interest rates are a mixed blessing: the immediate consequence is that there is a temporary decline in NAV, but over time higher interest rates are beneficial since the new loans we will be making in the future will naturally have a higher yield.

There is also another indirect effect. Inflation is likely to be helpful for the credit quality of many of our borrowers, since their debts will decrease in real terms while their assets and

revenues will benefit from inflation. For example, if we are financing student accommodation, then it is reasonable to assume that the rents that students pay will increase by more or less inflation over time, and that therefore that borrowers' credit ratios (such as loan-to-value or interest cover) will improve.



## HOW HAS THE COMPANY BEEN AFFECTED BY RUSSIA'S INVASION OF UKRAINE?

The Company is not permitted to invest in Russia, Belarus or Ukraine, and so has no direct exposure to those jurisdictions. Its indirect exposure (for example, do we lend to companies that do business there?) is negligible. The Company is fully compliant with the international sanctions imposed on Russia.

However, that is not to say that there have been no consequences for the Company – all investors have been affected, and we are no different.

The invasion has led to a significant and sustained increase in the price of some commodities, notably energy. Our analysis is that, overall, this is positive for the credit quality of our portfolio since the Company has substantial exposure to electricity generation (both conventional and renewable) and, to a lesser extent, midstream oil and gas assets (such as pipelines), both of which benefit from high energy prices.

We have less exposure to infrastructure sectors (such as transportation) that suffer when prices are high. The one very material adverse consequence was the default of our loan to Bulb Energy, which is discussed elsewhere in this report.

The conflict has underlined Europe's need for alternatives to fossil fuels, and the EU has pledged to end its dependency on gas, coal and oil imported from Russia. The Company expects this rebalancing of the energy economy to provide new opportunities in renewable energy, and associated assets such as energy storage, smart metering and grid stabilisation.

In the shorter term though, the broader economic consequences of the invasion are clearly negative. Not only have inflationary pressures increased, but supply chains have been disrupted, especially in agriculture, and it is possible that this will have far-reaching economic and geopolitical consequences. We remain cautious in our investment approach in this period of uncertainty.





## Q&A with the Investment Adviser continued

### HOW DOES YOUR ESG STRATEGY WORK IN PRACTICE?

The Company has continued to implement its comprehensive ESG programme. As in previous years, we have clear criteria for what we will not invest in (i.e. negative screening) and where we would like to make more investments (i.e. positive screening). We also have an ESG scoring process, transparently set out in our ESG policy, and aim to increase the portfolio's ESG score over time – a goal we have achieved this year, largely as a result of continuing to invest in projects with strong ESG credentials.

These three elements – negative and positive screening and ESG scoring – are mostly concerned with the allocation of capital. Whilst that is of course hugely important, we do not believe that should be the full extent of our ESG strategy. Our view is that we can engage with the companies that we lend to on a range of ESG topics. This engagement can take the form of, for example, dialogue with our borrowers (both before and after we lend), gathering information, and including within loan agreements a range of undertakings, representations, warranties and covenants covering the borrowers' environmental, social and governance obligations.

Our belief in driving change may also lead us to make some investments, from time to time, which have relatively low ESG scores, but where our capital is making a material improvement in the environmental profile of the company we are lending to. For example, we might lend to finance energy efficiency, recycling or carbon-scrubbing technologies.

Other than our Portfolio ESG scoring process and procedures, we have taken steps to mitigate our carbon emissions. In addition, we have supported the steps that the Company has taken to mitigate its emissions as described in the Chair's statement on pages 12 to 13.



### WHAT ARE THE INVESTMENT ADVISER'S FUTURE INITIATIVES?

The Company remains committed to generating attractive and sustainable returns by investing in an increasingly diverse portfolio of economic infrastructure debt. As at 31 March 2022, the Company's invested portfolio consisted of 76 investments overall, an increase from 72 in March 2021. Looking ahead, the Company will seek to further the development of its pipeline of 8 sectors and 29 sub-sectors by exploring new infrastructure technologies, such as: floating offshore wind, synthetic fuels, carbon capture technologies, hydrogen, energy storage and automation. We believe that these sectors are closely aligned with the Company's strategy and future ambitions as we continue to diversify the portfolio.

The Company will also continue to hold the majority of the portfolio in senior-ranking debt, as opposed to mezzanine or other types of subordinated lending. Senior-ranking debt has the first claim on a borrower's assets in the event of a default and is therefore the most defensive type of lending. The Company will also focus on targeting floating rate assets to generate adequate real returns for investors. As at 31 March 2022, floating rate assets represented 50% of the portfolio. The Investment Adviser aims to maintain or increase this percentage over time.



# Investment Adviser's report

We have seen a meaningful improvement in the credit quality of the portfolio

## THE INVESTMENT ADVISER'S OBJECTIVES FOR THE YEAR

Over the course of the financial year ended 31 March 2022, 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> 8.4%.	✓
<b>MANAGE THE PORTFOLIO RESPONSIBLY THROUGH AN INFLATIONARY AND RISING INTEREST RATE ENVIRONMENT</b>	Anticipating hawkish central bank policies, the Company has targeted and achieved a low-duration portfolio consisting of 50% floating rate assets and implemented increased monitoring on potentially negatively affected assets.	✓
<b>FOLLOW A SUSTAINABLE INVESTMENT STRATEGY</b>	The Company has improved the overall ESG score of its portfolio by allocating capital to higher-rated opportunities and selling off lower-rated legacy investments. ESG engagement with borrowers has increased to improve reporting.	✓
<b>TIMELY AND TRANSPARENT INVESTOR REPORTING</b>	Factsheets, commentary and the full portfolio are provided monthly for full transparency.	✓
<b>CONTINUE IMPLEMENTATION OF ESG-LINKED BENEFITS FOR THE COMPANY</b>	Renewal and increase of the Company's RCF in November 2021 with the inclusion of a sustainability-linked interest margin.	✓
<b>CASH-COVERED DIVIDENDS OF 6.25P PER SHARE</b>	The Company paid 6.25p of dividends per Ordinary Share during the year. Cash cover of 1.06x <sup>1</sup> on the dividend.	✓

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

# Investment Adviser's report

## THE INVESTMENT ENVIRONMENT DURING THE YEAR

The first half of the year saw mostly benign financial market conditions, with stable interest rates and, overall, credit spread tightening, albeit at a slower pace compared to the previous year. Credit spreads in some sectors, such as telecommunications and renewable energy, dropped to below pre-COVID levels. Other sectors, such as aviation and non-sustainable power, did not see significant credit spread tightening, driven in part by their lacklustre economic performance and in part by their poor ESG profile, which is increasingly deterring investment in some sectors.

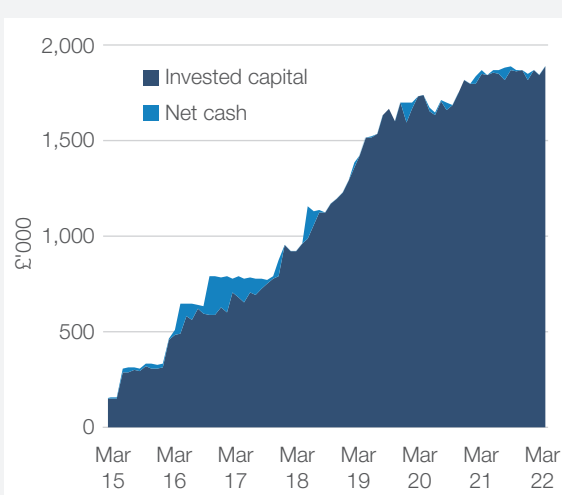
During the second half of the fiscal year, financial markets were both weaker and more volatile, as a result of inflation and interest rate concerns, hawkish central bank policies and Russia's invasion of Ukraine. In addition, energy prices (specifically the electricity, oil and gas markets) rose very significantly, benefiting some parts of the infrastructure market (for example, renewable energy), whilst hurting other parts (for example, transportation).

Overall, this has been a challenging economic environment, and many asset classes – including high yield bonds, leveraged loans and the listed equity markets – have struggled. In our report we will discuss how the Company has fared and how the investment portfolio is positioned for some of the challenges and opportunities.

### SHARE PERFORMANCE

As at 31 March 2022, the Company had 1,767,397,442 Ordinary Shares in issue. The closing share price on that day was 102.8p per Ordinary Share, implying a market capitalisation for the Company of approximately £1.82 billion, compared to £1.84 billion the previous year. The share price declined slightly year-on-year, by 1.3%. In the opinion of the Investment Adviser, this was mainly driven by concerns about the impact of inflation, rising interest rates and how Russia's invasion of Ukraine and the associated disruptions to supply chains will impact on the global economy, as well as the decline in the Company's NAV per share as discussed below.

### CAPITAL RAISING AND DEPLOYMENT SINCE IPO



## LIQUIDITY

As at 31 March 2022, the Company had cash of £94.5 million, more than covering the £66.3 million of future funding commitments on investments it had made. During the period, due to the lingering consequences of COVID-19, the Investment Adviser focused on the monitoring and management of existing portfolio investments and deployment of capital into attractive new loans.



## NAV PERFORMANCE

Over the financial year, the Company's NAV per Ordinary Share<sup>1</sup> decreased by 2.68p post-dividend, from 103.18p to 100.50p, driven by the following effects:

Factor	NAV effect
Interest income on the Company's investments	8.57p
Losses on foreign exchange movements, net of the effect of hedging	0.00p
Negative price movements <sup>1</sup>	(3.52)p
IFRS adjustment from mid-price at acquisition to bid price	(0.31)p
Operating costs	(1.19)p
Gains from issuing Ordinary Shares at a premium to NAV	0.02p
<b>Gross increase in NAV</b>	<b>3.57p</b>
Less: Dividends paid	(6.25)p
<b>Net decrease in NAV after payments of dividends</b>	<b>(2.68)p</b>

Over the year, portfolio income has been reasonably strong (both on an accounting basis and on a cash basis, as discussed in the next section), but the NAV, net of dividends, has overall fallen slightly due to negative price movements of 3.52p per share. This figure can be analysed as the sum of four different components:

Factor	NAV effect
Mark down of Bulb, Salt Lake Potash and Washington School	(2.50)p
Mark up of previously underperforming loans	0.70p
Price declines due to increases in long-term rates	(2.09)p
Other price movements	0.37p
<b>NAV decrease due to price movements</b>	<b>(3.52)p</b>

Although the NAV decline is disappointing, the Company has consistently outperformed the liquid credit markets, such as high yield bonds and leverage loans, since its IPO in March 2015 and this year was no exception. In fact, over the year the NAV total return<sup>1</sup> to investors has been 3.5% (44% since the IPO), compared to -1.61% (22% since the IPO) for Sterling-hedged high yield bonds. The chart below shows this relative performance.

### TOTAL RETURN SINCE THE INCEPTION OF THE COMPANY TO 31 MARCH 2022



Source: Bloomberg.

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

# Investment Adviser's report continued

## DIVIDEND COVER

Pleasingly, the level of dividend cash cover<sup>1</sup> has increased from 1.04x in the last financial year to 1.06x for the current year. This improvement in cash cover was mainly driven by (1) several borrowers who had previously been permitted to capitalise interest during the COVID-19 pandemic starting to pay cash interest again and (2) interest income on floating rates loans increasing as LIBOR (or equivalent short-term rates) rose. For details of the dividend cash cover calculation, please refer to the Appendix.

The Investment Adviser expects that the dividend cover will continue to improve in the next financial year, driven by the collection of accrued interest and by increasing short-term interest rates. The Directors of the Company have, in light of this, reaffirmed their dividend target.

## THE CREDIT PERFORMANCE OF SPECIFIC INVESTMENTS

Overall, we have seen a meaningful improvement in the average credit quality of the portfolio, as many parts of the economy have rebounded from COVID-19. Specific examples include student accommodation, transportation and both traditional power and renewable energy. The last two sectors also benefited from the rise in energy prices in the second half of the year. However, as would be the case with any loan portfolio, some investments have underperformed, sometimes materially, and these positions are discussed below.

In our previous Annual Report, we highlighted four investments that were experiencing significant credit issues: a private school in Washington D.C., a restructured loan in the US midstream business, a Combined Heat and Power ("CHP") plant in Germany, and a business that owns and operates two refineries in Sweden. Pleasingly, the underlying performances of the last three on this list have improved to the extent that these loans are no longer of concern. In fact, as noted above, the prices of these three investments have increased and contributed in aggregate about 0.70p per share.

While these three loans have improved, two other loans have deteriorated. Together with our loan backed by the private school in Washington D.C. these investments are being actively managed by the Investment Adviser and are summarised below.

## PART I. REVIEW OF THE YEAR

### 1. US private school

A loan backed by and secured on a large building in a prime area in Washington D.C., occupied by a private school under a long-term lease agreement. As at 31 March 2022, the value of this loan is equal to 1.66% of the portfolio.

As a result of the COVID-19 pandemic, the ramp-up of school enrolments was much slower than expected. Lower than projected revenues from tuition fees left the school without the funds needed to pay rent to the property-owning company which, in turn, left the property company (our borrower) unable to pay interest on its loan. Unfortunately, the school operator has to date been unsuccessful in raising the capital that would enable it to resume meeting its obligations under its lease, and the owner of the property has therefore worked with its lenders, including the Company, to restructure its debt. In April 2022, the property owner secured the refinancing of part of its capital structure and an agreement has been reached between the lenders and the borrower to restructure and extend the debt. This includes the injection of further equity by the property owner. This restructuring provides a stable capital structure for the borrower to realise the value of the property and repay the Company's loan.

### 2. UK energy supply company

A senior secured loan to a retail energy supplier in the UK, Bulb Energy ("Bulb"). As at 31 March 2022, the value of this loan is equal to 1.55% of the portfolio.

Over the course of the second half of 2021, global energy prices increased sharply. Bulb, in common with other energy supply companies in the UK, was unable to pass these increases on to its retail customers (given the retail energy price cap regulation in the UK) and consequentially found itself increasingly loss-making. Although Bulb had a substantial energy hedging programme in place, which helped to mitigate these losses, Bulb was unable to extend its hedges as market volatility increased and its capital position deteriorated. On 24 November 2021, Bulb and its parent company, Simple Energy Limited ("Simple"), went into the special administration regime ("SAR") and ordinary administration, respectively.

The primary objective of the SAR is to ensure continuity of energy supply to customers, and, in this regard, the Investment Adviser has been working openly and constructively with all stakeholders to ensure the best interests of customers, employees and creditors. During the SAR, the Fund is unable to enforce its senior security over the assets of Bulb. Moreover, any funding that the Government provides to Bulb, to support its ongoing operations during the SAR or to pursue other Government policy objectives, may rank senior to the Fund's secured loan. As such, the Government has, in effect, nationalised Bulb and deprived the Company of the value of its security.

However, the Company's loan to Bulb is also secured on the substantial assets of its parent, Simple. These assets are not included in the scope of the SAR and therefore continue to provide collateral for our loan to Bulb. The administrators of Simple continue to make progress on realising the value of its assets. On 3 May 2022, the Fund received a partial repayment of £10 million from Simple against the outstanding amounts due under the loan agreement, which cleared all outstanding interest due and reduced the outstanding loan balance to £47.6 million.

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

### 3. Australian potash facility

A senior secured loan to finance the construction of a potash extraction and processing facility in Western Australia, currently valued at 1.70% of the portfolio. The facility is owned by Salt Lake Potash ("SLP"), a company listed on the Australian stock exchange under the ticker SO4.

SLP's plan to start production in early 2022 met a series of obstacles, including technical/engineering issues and extreme weather (the heavy rainfall was classified as a 1-in-50-years event). These difficulties resulted in both the construction cost of the project increasing, as well as a delay to the date on which it would start to generate profits, leaving the project with a funding shortfall. SLP's attempt to raise additional capital from the stock market to address this shortfall unfortunately proved unsuccessful, and the project's lenders appointed KordaMentha as receivers on 20 October 2021.

The receivers, in consultation with the lenders, have continued to ensure that the project remains viable, by retaining key employees and undertaking necessary works, commissioning third-party advisers to update the project's business plan and due diligence reports, and prepared SLP for sale. On 10 March 2022, KordaMentha made an announcement on the Australian Stock Exchange regarding the start of the sale process and provided a short summary of some of the findings of the third-party advisers, notably that the quantity of the potash resource was materially higher than originally estimated and the market price of potash is much higher than a year ago, but, offsetting that, the rate of future extraction may be lower than previously assumed.

### FUND PERFORMANCE

		31 March 2022	30 September 2021	31 March 2021
Net asset value	per Ordinary Share <sup>1</sup>	<b>100.50p</b>	102.94p	103.18p
	£ million	<b>1,777.0</b>	1,818.2	1,819.1
Invested portfolio	percentage of NAV	<b>95.0%</b>	98.4%	94.3%
Total portfolio (including investments in settlement)	percentage of NAV	<b>101.5%</b>	100.3%	97.7%

### PORTFOLIO CHARACTERISTICS

		31 March 2022	30 September 2021	31 March 2021
Number of investments		<b>76</b>	74	72
Single largest investment	£ million	<b>64.7</b>	66.9	65.0
	percentage of NAV	<b>3.6%</b>	3.7%	3.6%
Average investment size	£ million	<b>23.7</b>	24.1	23.8
Sectors		<b>8</b>	8	8
Sub-sectors	by number of invested assets	<b>29</b>	31	31
Jurisdictions		<b>12</b>	12	12
Private debt		<b>94.7%</b>	94.9%	93.3%
Senior debt		<b>53.6%</b>	56.2%	54.7%
Floating rate	percentage of invested assets	<b>50.1%</b>	50.3%	56.5%
Construction risk		<b>13.1%</b>	10.1%	8.1%
Weighted-average maturity	years	<b>5.2</b>	5.3	5.6
Weighted-average life	years	<b>4.1</b>	4.3	4.5
Yield-to-maturity		<b>8.4%</b>	8.6%	9.0%
Modified duration		<b>2.1</b>	2.3	2.3



# Investment Adviser's report continued

## PART II. INVESTMENT STRATEGY

### Economic infrastructure as a diverse, sustainable and highly cash-generative asset class

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 case of 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. Moreover, as sustainability has become a key investment topic, the Investment Adviser notes that investing in new economic infrastructure is often necessary for the implementation of the latest technologies. This leads to an abundance of ESG-focused investment opportunities, benefiting not only the Company's portfolio, but also the modernisation of otherwise high barrier-to-entry sectors.

The 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 the core features of economic infrastructure all contribute to strong fundamentals that are critical for weathering storms.

With that said, the economic infrastructure market is not immune to volatility and there are certain actions we took prior to, and over the course of, the financial year, including targeting mainly floating rate assets, focusing on senior debt and favouring non-cyclical industries. These actions helped position the portfolio defensively for potential downturns, such as the COVID-19 pandemic and Russia's invasion of Ukraine.

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

## 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, 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 ran into their 10th year in the second half of 2019. Throughout the year, the Company has also continued to position itself defensively in anticipation of higher inflation and the potential of a recession. As a consequence of these actions, as at 31 March 2022:

- 48% of the portfolio is invested in defensive sectors, including telecommunications, accommodation, utilities and renewables. These are viewed as defensive because they provide essential services, often operate within a regulated framework and have high barriers to entry;
- 54% of the portfolio is in senior-ranking debt, as opposed to mezzanine or other types of subordinated lending. Senior-ranking debt has the first claim on a borrower's assets following a default and is therefore the most defensive type of lending;
- the average credit quality of the portfolio has been maintained at B1 over the last 12 months while still achieving our target yield. Our policy of not making CCC credit quality investments, or of investing in distressed debt, remains in place; and
- 50% of the portfolio is in floating rate loans. The Company focused on targeting floating rate assets throughout the year in order to continue to generate adequate real returns for investors.

The Investment Adviser aims to maintain or increase this percentage over time.

The Company's investment portfolio is diversified by borrower, jurisdiction, sector and sub-sector, with strict investment limits in place to ensure that this remains the case.

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 it has not yet invested in Portugal or Italy. 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 on 31 March 2022 represented approximately 95% 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 Company'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 of 31 March 2022 was 13% of the NAV. 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 ESG initiatives during the fiscal year. Throughout the year, the Company continued to deploy its capital in sustainable investments with favourable ESG credentials such as renewables, energy transition and TMT investments. To further demonstrate its commitment to sustainability, the Company has also introduced a sustainability-linked margin adjustment to its RCF as part of the latest RCF refinancing and upsizing in November 2021 which will be determined annually based on the portfolio's overall ESG score.

# Investment Adviser's report continued

## PART II. INVESTMENT STRATEGY CONTINUED

### The portfolio's resilience to rising interest rates and inflation

Two of the key investment themes currently are globally high inflation and rising interest rates. Clearly these two are linked and market participants expect central banks to continue to increase policy rates to try to bring inflation under control. We believe the portfolio is well positioned to manage this situation, and moreover see significant advantages for the Fund in a higher interest rate world.

Increasing interest rates are broadly positive for the Fund, although their impact can be complex.

- Rising short-term rates are positive, since half the investment portfolio consists of floating rate debt. Higher short-term rates therefore will increase the income that the Company derives from its investment portfolio, improving dividend cover and potentially helping to build NAV. It should however be noted that interest rates affect the cost of currency hedging and therefore increases in Sterling short-term interest rates are the most beneficial.
- Rising long-term rates are positive over time, but may result in temporary NAV declines at first. The portfolio has a low modified duration of 2.1, which means that a one basis point increase in long-term interest rates will result in the portfolio valuation falling by approximately 2.1 basis points. However, this decrease is temporary as the price of the investments will "pull to par" as they approach maturity. The advantage to the Company of higher interest rates is that, all other things being equal, the Company will be able to charge higher rates on its new loans.

### 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.

#### Primary market origination

The primary loan markets provide 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 of 31 March 2022.

#### Secondary market origination

Some of the Company's investments continue to be acquired from banks or other lenders in the secondary markets. This approach can provide one or more of the following benefits:

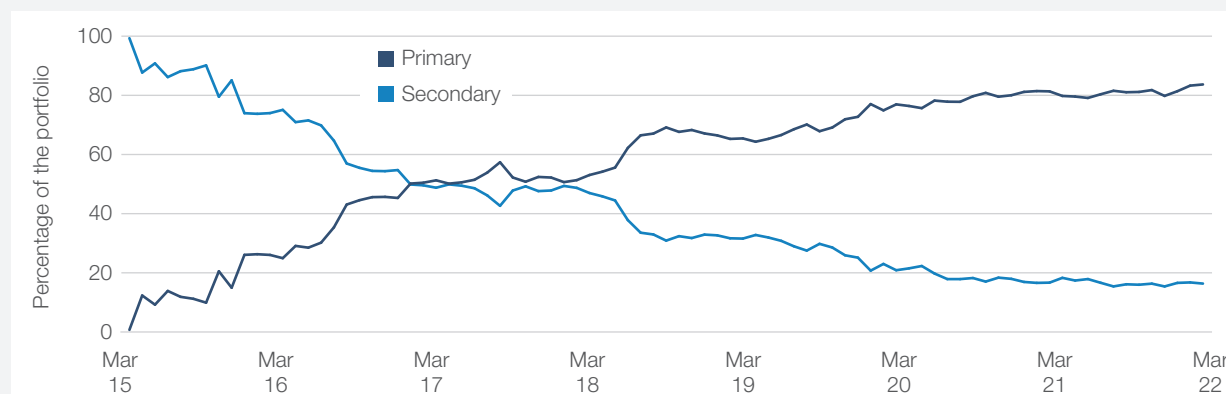
- enables a rapid deployment of capital, since secondary positions can be acquired relatively quickly compared to primary market transactions in infrastructure debt that first need to be structured, negotiated and documented;
- provides an additional source of due diligence material as loans have performance histories that permit credit analysis on actual results rather than financial forecasts. In addition, 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; and
- provides a yield pick-up as there is a real shortage of secondary market investors in project finance, as most infrastructure debt funds focus exclusively on the primary markets. During periods of market volatility in particular, the Fund can take advantage of the limited competition to capture attractive discounts from sellers looking to reduce or exit positions.



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



## PART III. POSITIONING THE INVESTMENT PORTFOLIO FOR THE FUTURE

## Investment opportunities

Sequoia continues to monitor the global response to the COVID-19 pandemic as well as the primary and secondary effects of Russia's invasion of Ukraine. As the world continues to emerge from lockdowns, Sequoia believes the Company is particularly well positioned to continue deploying capital into its pipeline of mostly private debt infrastructure lending opportunities. Sequoia continued to witness a steady stream of infrastructure debt opportunities during the second half of this financial year despite the difficult market conditions. In terms of the pipeline, Sequoia is especially excited about potential investments in the renewables and accommodation sectors where the current portfolio is arguably underweight, lending opportunities are often attractive and capital deployment into these sectors would be desirable for diversification. Investments in these sectors will also provide additional stability in case of a potential policy-driven market downturn or other unpredictable events. 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 debt demonstrates its strength and resilience as an 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.

In exploring these investment opportunities, the Company will utilise its RCF, which was refinanced during the year, on more attractive terms than the previous facility. Notably, the facility was increased to £325 million, margins on drawn amounts have been reduced and the facility's covenants were modified to better suit the Fund's needs. As of 31 March 2022, the Company had drawn £121.4 million on the RCF.

In light of the ongoing economic uncertainty, the Company expects to have only a moderate level of net debt. This will leave the Company with liquidity to, for example, meet margin calls on its FX hedging book, or take advantage of secondary market opportunities that may present themselves. Additionally, low gearing is prudent in periods of market volatility, and will lead a more stable NAV.

## 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 monitoring and new origination activities.

Specifically, the Investment Adviser has hired six additional investment professionals since March 2021 (one Vice President, four Analysts and one Fund Controller). These hires will further enhance an already-strong team. As at March 2022, the total headcount with these additional hires was 24. We believe that this is one of the largest and most knowledgeable investment teams focused solely on infrastructure debt in the market, and as such positions the Company well for continued success.

## SEQUOIA INVESTMENT MANAGEMENT COMPANY LIMITED

Investment Adviser

8 July 2022

# Case study

[LINK TO ESG](#)

Enabling the transition  
to a lower carbon world

## EXMAR

EXMAR is a provider of crucial floating infrastructure solutions to the oil & gas industry, a leading ship owner and operator in the transportation of liquefied natural gas ("LNG") and liquefied petroleum gas, and a provider of supporting services to the marine industry. As of 2021, the company owned two floating LNG infrastructure assets with 3.5 million tonnes per annum of joint capacity and controlled a fleet of 37 ships and two offshore accommodation barges. The company seeks to employ its infrastructure assets and vessels on medium to long term contracts that improve the visibility of cash flows. In 2022, EXMAR signed a five year tolling fee contract with Dutch utility Gasunie for the use of EXMAR's floating storage and regasification unit.

EXMAR has a strong focus on developing sustainable solutions in shipping and is at the forefront of developing ammonia fuelled ships and CO<sub>2</sub> and hydrogen transport solutions.

EXMAR is based in Antwerp, Belgium and is listed on Euronext. The proceeds of the facility were used to prepay the company's NOK 650 million senior unsecured bonds, maturing in May 2022.





**8.39%**

Cash-on-cash yield

**8.39%**

Yield to maturity

**US\$50.0  
million**

Size





# 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, 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 contractually oblige our borrowers to adopt and comply with 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 Shareholders our compliance with our ESG policies.

## UN SDGs:

The Company aims to align its investments with the UN SDGs through its ESG policy and investment criteria.



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 and possible, 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 year, the Fund has continued to incorporate its comprehensive set of environmental policies and strategies into its investment approach, as set out in more detail in the Policy. Over the course of the next year, 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; and
- 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; and
- exercising voting rights in loan agreements responsibly and taking account of the environmental consequences of voting.



# Sustainability continued

## ENGAGEMENT POLICIES CONTINUED

### 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

### ESG POLICY – SUMMARY

Throughout the year, the Company has continued to incorporate its comprehensive programme of broad ESG considerations into its investment approach.

The Board and the Investment Adviser take their corporate and social responsibilities seriously. The Company already had strong ESG credentials when, on 10 March 2021, it 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 built significantly on its early ESG work and can now state the following:

- the Investment Adviser fully incorporates the UNPRI in its investment processes and decisions;
- the Company operates its business and its investment activities in accordance with the UN Global Compact;
- the Company complies with the reporting obligations of the SFDR (as applicable, in particular Article 8);
- the Company has improved its ESG score compared to March 2021, when KPMG LLP last provided independent limited assurance under ISAE (UK) 3000 over SEQI's portfolio's overall ESG score. The assurance opinion can be found on the Company's website ([www.seqifund.com/investors/documents-circulars](http://www.seqifund.com/investors/documents-circulars));
- the Company proposed and negotiated an ESG-linked interest rate adjustment to its new RCF facility, which was signed in November 2021. This allows the Company to benefit by improving the portfolio's ESG profile and underscores the Company's long-term commitment to ESG and sustainable investment; and
- the Company promotes its lenders' commitment to ESG policies by including ESG-linked positive and negative covenants in loan documentation where possible. This is supported by the customisable nature of private debt deals, which comprise the majority of the Company's portfolio.

During the year, the Board has also taken steps to assess the Fund's carbon footprint by engaging with each of its key suppliers on their ESG activities, with a particular focus on the steps being taken by each to reduce their greenhouse gas emissions. The Board recognises carbon offsetting as the last stage of an effective net-zero strategy.

To this end, the Company is currently considering acquiring credits in schemes issued through the Gold Standard marketplace, which provides an "off-the-shelf" route for organisations to acquire credits which can be retired immediately as part of their emissions reductions strategy. The Board is also considering investment in UK peatland restoration through development projects verified under the Peatland Code. Damaged peatlands are estimated to emit around 4% of the UK's total annual greenhouse gas emissions. The amount to be committed by the Fund, partly funded by contributions from each Director of 1% of their annual fees from the Company (see the Directors' remuneration report), will be allocated as roughly 25% towards immediate offsets in respect of the year ended 31 March 2022, and 75% proposed to be committed to investment in UK peatland restoration to offset emissions anticipated to be generated over a minimum of the next three financial years. Key suppliers will also be invited to contribute towards the scheme as part of their environmental initiatives which, if successful, will reduce the Company's overall financial commitment.

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. 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 thorough assessment of the potential impact of climate change, enhanced environmental impact and technical assessments, and ESG questionnaires for borrowers; and
- loan documentation can include, where appropriate, ESG considerations. For example, enhanced reporting by borrowers in relation to their environmental impact.

The Company's reporting to its Shareholders has been expanded to cover ESG. In particular, it will take the recommendations of the TCFD into account, including those recommendations specific to the banking sector. The Company aims to provide best-in-class disclosure.

During the prior year, the Investment Adviser retrospectively reviewed the Company's existing portfolio and assessed whether it had been holding investments which, had these policies been in place at the time, would not have been made. The Investment Adviser positively noted only two "red flag" investments, including a loan to an airport services provider, which was sold in the prior year, and a loan to a coal export terminal, which matured during the year in June 2021. As such, there are no legacy investments remaining in the portfolio as at the end of the year. The Company will however continue its efforts to increase its ESG score by disposing of its lower-scoring assets and by favouring credits that align closer with its ESG policy.

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



# Sustainability continued

## APPLYING ESG PRINCIPLES TO SEQI

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

### 1. NEGATIVE SCREENING

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; and
- alcohol, gambling and pornography are already excluded by SEQI's investment criteria.

### 2. THEMATIC INVESTING (POSITIVE SCREENING)

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 2022, thematic investing covers 61% (2021: 59%) of SEQI's investment portfolio, split 13% (2021: 17%) renewable energy, 24% (2021: 23%) enabling the transition to a lower carbon world and 24% (2021: 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



#### Infrastructure with social benefits

- Telecom towers
- UK specialist healthcare
- Student housing in a range of jurisdictions
- US passenger rail service

### 3. ESG SCORING

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.

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 the 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.

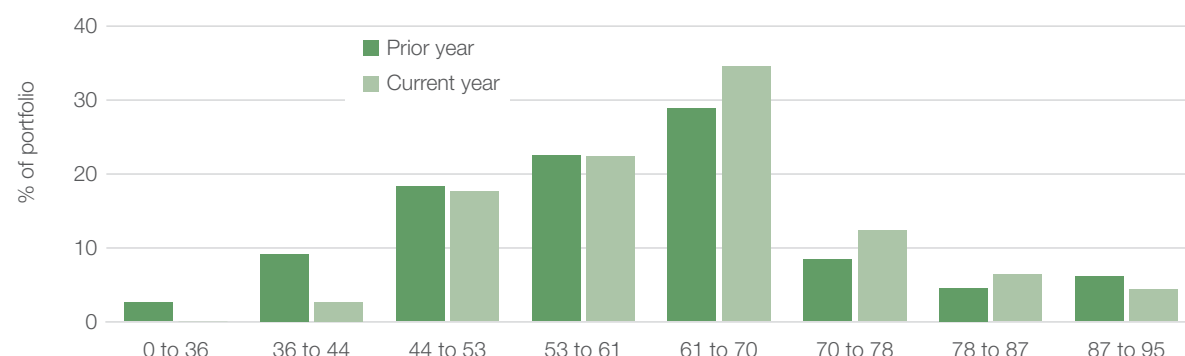
Finally, the scoring methodology and model have been calibrated such that renewable energy projects with the most robust social and governance practices would receive a score of 100, and a power plant that burns thermal coal with no redeeming social or governance policies would receive a score of 0. 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 2022

Over the last year, the portfolio’s overall ESG score increased from 60.59 to 61.88<sup>1</sup>. 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 below represents a comparison of the portfolio’s ESG profile between March 2021 and March 2022.

The main reasons for the change in score are (i) the effect of loans being repaid or sold, (ii) the effect of new investments and (iii) changes in borrower behaviour.

- The removal from the portfolio of all maturing and sold positions since March 2021 contributed to a decrease of 0.16 in the ESG score. Three of the portfolio’s high-scoring investments repaid during the year. This was partially offset by the repayment of Adani Abbot and Seaport, which had ESG scores of 35 and 40 respectively. While the Company is not in control of unscheduled repayments, we expect the long-term impact of repaying credits on the portfolio’s ESG score to be positive due to pre-existing and weaker ESG investments reaching maturity or being sold, and proceeds being re-invested in greener assets.
- The acquisition of new assets improved the portfolio’s ESG score by 1.41. This re-affirms the Investment Adviser’s commitment to ESG and continuous efforts to deploy capital as defined in its ESG policy.
- An upwards revision of three credits, which have shown material commitment to their ESG policies, improved the portfolio’s score by 0.13. We encourage lenders to improve on their own policies and procedures. As part of regular credit monitoring, the Company reconsiders the ESG scores of its portfolio assets and makes adjustments when appropriate.
- The remaining small improvement of 0.22 in the overall ESG score was attributable to changes in assets’ weights and some cross-effects between the previous categories.

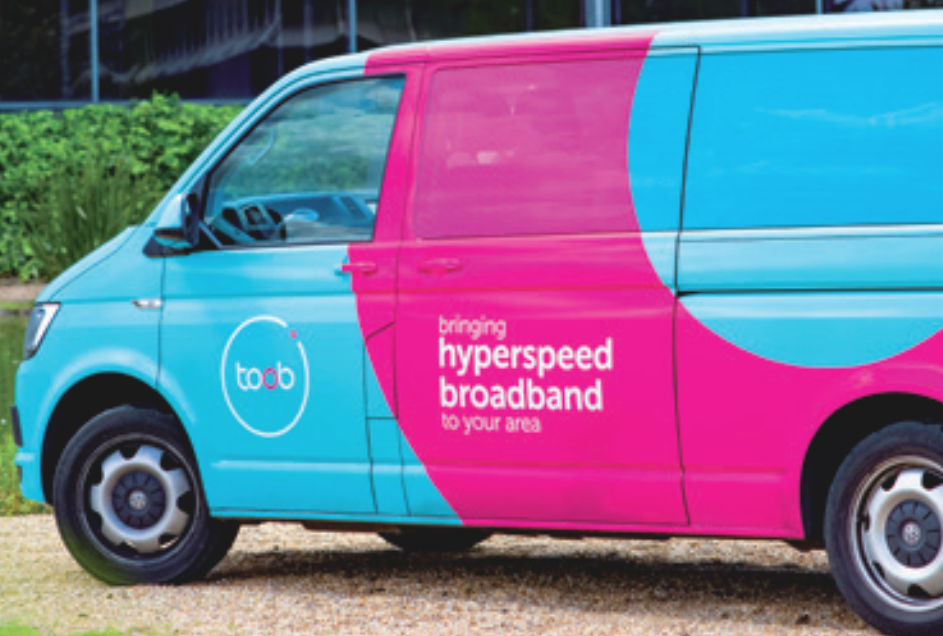


1. Included within KPMG LLP’s independent limited assurance scope. The assurance opinion can be found on the Company’s website ([www.seqifund.com/investors/documents-circulars](http://www.seqifund.com/investors/documents-circulars)).

# Case study

[LINK TO ESG](#)


Infrastructure with  
social benefits



## Toob

### 6.25%

Cash-on-cash yield

### 6.25%

Yield to maturity

### £23.9 million

Size

Founded in 2017 by seasoned ex-Vodafone senior executives and backed by Amber Infrastructure, Toob owns and operates a full-fibre network in the south of England, connecting homes and businesses directly to gigabit broadband for £25 per month (for 18-month contracts), i.e. much faster and cheaper than most competing services. By prioritising use of Openreach's Physical Infrastructure Access ("PIA") comprising existing underground ducts and telegraph poles, Toob is able to minimise the need for civil works and permits required from councils to keep construction costs low.

From an environmental perspective, full-fibre networks are significantly more energy efficient than copper wireline networks. They require no power to street cabinets, and their services are more reliable, requiring significantly less maintenance. The fibre infrastructure directly reduces pollution as it is more energy efficient compared to the existing copper-based networks. Moreover, it enables more people to work or study from home, which also indirectly reduces pollution.

Toob is targeting full coverage in each of its hubs across the south of England, thus enabling households to connect to a faster and more reliable level of service which previously was not widely available. Broader access could lead to improved education (as more education shifts online) and greater productivity. Toob's price point, while a commercial item, is suited to delivering high speed connectivity, often at lower prices and higher bandwidth than incumbent products.

The company is committed to deploying sustainable solutions to provide fibre broadband access in urban and suburban areas with ESG policies and commitments in place or planned. The Company also negotiated that an ESG report be prepared by Toob as a part of annual information undertaking. This undertaking enables the Company to actively monitor Toob's progress and engage in active dialogue with management in achieving sustainability, social and governance goals.

# Sustainability continued

## Our progress against the TCFD recommendations

The Company firmly believes that high-quality climate disclosure is essential for all Shareholders making long-term investment decisions. The following table outlines the Company's summary of the TCFD disclosures made for financial year 2021/22.

### WHAT TCFD IS AND WHAT IT STANDS FOR

The Financial Reporting Council says that "Users expect companies to provide full information about the future impact of climate change on the business and how the company's activities affect the environment". In accordance with the net zero target by 2050, the UK Government also now expects listed companies to report in line with the TCFD framework.

This means that greater disclosure will be required across the areas of governance, risk, performance and strategy. Although investment firms are currently exempt from the provision of TCFD, the Company expects increased pressure from investors to lead to more voluntary compliance across the industry.

We are pleased to confirm that we have included in our TCFD Report climate-related financial disclosures consistent with the four recommendations and the 11 recommended disclosures set out in the June 2017 report entitled Recommendations of the Task Force on Climate-related Financial Disclosures. In October 2021, the TCFD released additional guidance implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (2021 TCFD Annex), which supersedes the 2017 Annex of the same name (2017 TCFD Annex).

In line with the current UK Listing Rules (Listing Rules) requirements, our TCFD-aligned disclosures take into account the implementation recommendations in the 2017 TCFD Annex. In addition, we have considered the 2021 TCFD Annex and applied it where possible. Some recommendations in the 2021 TCFD Annex will require more time for us to fully consider. We will be working to implement the rest of the 2021 TCFD Annex recommendations over the course of 2022 and intend to apply these more fully in our next Annual Report. Further details on the TCFD Recommendations and Recommended Disclosures are available at: <https://www.fsb-tcfid.org>.

## GOVERNANCE

Disclose the organisation's governance around climate-related risks and opportunities.

### TCFD RECOMMENDED DISCLOSURES

#### A. The Board's oversight of climate-related risks and opportunities.

The whole Board is responsible for setting the strategy for the Company, including in relation to climate-related risks and opportunities. The Board meets at least quarterly, during which they, together with their independent consultants and the Investment Adviser, review the risks and opportunities facing the Company, including in relation to climate change. As part of this, the Investment Adviser prepares an ESG report each quarter for the Board.

The Company has a number of Committees which are tasked with focusing on various specific elements of climate-related risk and opportunity.

- The Management Engagement Committee is responsible for encouraging the Company's service providers to minimise their avoidable greenhouse gas emissions and offset unavoidable emissions, thereby helping to minimise the Company's Scope 2 emissions.
- The Audit Committee has responsibility for climate-related disclosures including SFDR and TCFD.
- The ESG and Stakeholder Engagement Committee reviews and approves the Company's ESG policy.



# Sustainability continued

## Our progress against the TCFD recommendations continued

### GOVERNANCE CONTINUED

Disclose the organisation's governance around climate-related risks and opportunities.

#### TCFD RECOMMENDED DISCLOSURES CONTINUED

##### B. Describe management's role in assessing and managing climate-related risks and opportunities.

ESG, including climate-related risks and opportunities, has become central to the Investment Adviser's approach to infrastructure debt.

Climate risks are considered at each stage of the investment process, including the initial screening of opportunities (where positive and negative screening are applied, as outlined in the ESG policy) and in meetings of the Investment Adviser's Investment Committee. Risk assessment takes the form of both qualitative analysis (such as scenario testing) and qualitative assessments (such as approach of the management of investee companies).

After an investment has been made, the Investment Adviser continues to monitor it for changes to its climate-related risk profile. Primarily this is undertaken through regular discussion with, and information gathering from, the borrowers that the Company has lent to. This is further enhanced in some cases by bespoke climate-related covenants and undertakings included within loan agreements.

The Investment Adviser considers climate-related risks not only in relation to individual investments, but also aggregated at the portfolio level. For example, it is necessary to assess correlations of climate-related risks.

#### KEY DEVELOPMENTS

- For the 2020/21 financial year, the Company engaged KPMG to provide an independent limited assurance process under ISAE (UK) 3000 on our ESG scores for the SEQI portfolio. We understand that we were the first FTSE 250 investment fund to undertake such a process. This mandate has been renewed for the 2021/22 financial year, providing an independent oversight of our analysis.
- In March 2022, the Board formed an ESG and Stakeholder Engagement Committee as discussed above.

### STRATEGY

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.

#### TCFD RECOMMENDED DISCLOSURES

##### A. Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.

The Company is well positioned to take advantage of the climate-related opportunities, since the transition to a low carbon economy is likely to require very significant capital, and governments around the world will look to the private sector to finance this, at least in part. These opportunities include: renewable energy, grid enhancement, energy storage, electric vehicle charging, energy efficiency projects and improved mass transit systems. Moreover, traditional lenders such as banks are not always well positioned to adapt quickly to new technologies and that will increase the need for private debt. The Company is already seeing significant lending opportunities in many of these areas and expects this demand for capital to increase over time.

## STRATEGY CONTINUED

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.

### TCFD RECOMMENDED DISCLOSURES CONTINUED

#### A. Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term continued.

At the same time, the Company is exposed to climate-related risks, primarily through its investment portfolio. The key risks are:

- transitional risks, namely that some assets may become less profitable, or even worthless, as a result of legislation, regulation or market changes. For example, a carbon tax might mean that it is no longer economic to operate a gas-fired power plant;
- technology risk, namely that some parts of the infrastructure sector are developing rapidly, such as energy storage and hydrogen fuel systems, which may result in changes to markets that are difficult to predict. For example, the development of better batteries may make some "peaker plants" (power plants that operate when electricity prices spike) redundant;
- physical risk, namely that one consequence of climate change is the increased frequency of droughts, flooding, fires, storms or other natural phenomena. For example, businesses located in coastal areas may need to invest substantially in sea defences or otherwise harden their assets; and
- social and economic risks, namely that climate changes may make some areas much more difficult to live in, resulting in economic hardship, mass migration and potential political instability.

It is not possible to put precise time scales on these risks, but it is reasonable to assume that they are all currently present to a certain extent, and that they are likely to grow over time.

#### B. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

The impact of the climate-related opportunities is that the Company will be able to deploy capital on attractive terms to a wider range of sectors than currently. This will increase the diversification of the Company's portfolio and help it to deliver an attractive risk-adjusted return to Shareholders.

Conversely, avoiding sectors where there is an unduly high level of climate-related risk, or even limiting the Company's exposure to sectors where there is some climate-related risk, will decrease the portfolio's diversification.

The Investment Adviser's view is that, between these two factors, there will be a net benefit for the Company's strategy. This is because the Company is already avoiding the most at-risk sectors, and is only beginning to see the full range of opportunities that are likely to arise. Moreover, avoiding borrowers with a high degree of climate-related risk is simply prudent lending and should be done regardless of any ESG strategy.

One purpose of the Company's ESG score is to help track resilience to climate change, amongst other things. Part of the investment strategy is to improve the portfolio's weighted average ESG score over time, which can be achieved by improving the portfolio's resilience to climate change risks.

# Sustainability continued

## Our progress against the TCFD recommendations continued

### STRATEGY CONTINUED

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.

### TCFD RECOMMENDED DISCLOSURES CONTINUED

#### C. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Overall, the Company believes that its strategy is resilient to climate change.

In order to assess resilience, it is necessary to consider a range of scenarios. Broadly speaking, in 2°C or lower scenarios, transitional risks will be high but physical and social-economic risks will be low. In higher temperature scenarios, the converse will be the case.

There are two potential impacts of climate-related risk on the Company.

Firstly, some sectors within the infrastructure market may become uninvestible in the future, for example assets in the hydrocarbon value chain such as gas-fired power stations. This is especially likely to be the case in low temperature increase scenarios, where the economy has transitioned rapidly to a low carbon state. Currently, under its ESG policy, the Company is avoiding those sectors where there is a near-term or medium-term risk of them becoming uninvestible, such as coal-fired power stations or upstream oil and gas assets. Therefore, this potential impact can be considered long-term. Should it happen, the Company's portfolio might over time become less diversified; however, in the opinion of the Investment Adviser, this risk is more than outweighed by the opportunities described above.

Secondly, the credit quality of some of the borrowers that the Company lends to might deteriorate. For example, extreme weather events might materially increase the cost of insuring some assets, or they may not be insurable without investing in asset-hardening. This risk is mitigated in a number of ways:

- each of the borrowers has equity capital at risk ahead of the loan. This acts as a "shock absorber". The equity capital needs to be lost before the Company can lose money;
- the Company's loans are typically short-dated; they are mostly due to be repaid within five years. That is before many of the most serious climate risks are likely to manifest themselves;
- the Investment Adviser undertakes thorough due diligence on each company that the Company lends to, and assessing their exposure to climate risk is part of that. In other words, the Company is not likely to make a loan to a business that has poor resilience to climate change risk; and
- the investment portfolio is highly diversified, in terms of the location of its borrowers and the sectors and sub-sectors they operate in. This will reduce the effect of many risks, such as technological disruption or unexpected regulation or legislation.

### KEY DEVELOPMENTS

- After adopting its ESG policy in the 2020/21 financial year, the Company began disposing of, or in some cases waiting for the natural repayment of, its loans to borrowers in sectors that were not permitted under the ESG policy (for example, a loan to a coal export terminal). This process was completed during the 2021/22 financial year. This means that the Company no longer has exposure to sectors with the highest levels of transition risk.
- We have replaced these with, inter alia, loans in new sectors such as energy efficiency projects that are positioned to take advantage the opportunities that arise from the transition to a low carbon economy.

## RISK MANAGEMENT

Disclose how the organisation identifies, assesses and manages climate-related risks.

### TCFD RECOMMENDED DISCLOSURES

#### A. Describe the organisation's processes for identifying and assessing climate-related risks.

Climate-related risks are primarily assessed at the level of each investment, and form part of the Investment Adviser's due diligence and underwriting process.

Typically, third-party expert reports will be commissioned to assess key risks. For example, engineers might review the physical condition of the borrower's assets, including their exposure and resilience to extreme weather risk. This will then be analysed in tandem with a review of the borrower's insurance policy, and its other resources to cover uninsured risks. Each investment should also be analysed, where possible, in different climate scenarios, with the goal of identifying (a) credit rating changes arising from climate change and (b) elevated climate event risk. These items should be assessed separately as a standard credit rating framework struggles to incorporate event risk.

Climate-related risks are thus identified, and where possible quantified, in the due diligence phase of an investment, and discussed in the Investment Committee. Risks that are unacceptably high will result in an investment not being made.

#### B. Describe the organisation's processes for managing climate-related risks.

The Investment Adviser monitors each loan at least twice a year (and more frequently if required). This includes a review not just of credit quality, but also of the borrower's ESG profile, including climate-related factors. To assist in this, each borrower is sent annually a detailed questionnaire including qualitative and quantitative topics which will assist the Investment Adviser in updating its analysis.

A range of steps can be taken as a result of this ongoing monitoring of investments. For example, the internal credit rating may be adjusted, the loan may be considered for disposal, or the decision may be made not to participate in a refinancing of the loan, when it comes to its maturity date. In other words, if it becomes clear that a borrower's resilience to climate change is deteriorating, the Company can choose to dispose of the loan.

Similarly, if a sector is beginning to experience higher levels of climate-related risks, the Investment Adviser will avoid making new loans in it. Given the relatively short maturity of many of the loans in the portfolio, this will rapidly have the effect of decreasing the Company's exposure to that sector.





# Sustainability continued

## Our progress against the TCFD recommendations continued

### RISK MANAGEMENT CONTINUED

Disclose how the organisation identifies, assesses and manages climate-related risks.

#### TCFD RECOMMENDED DISCLOSURES CONTINUED

##### C. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

Climate risk is integrated into the entire investment and risk management process.

At a very early stage, in considering whether to dedicate resources to a potential new loan, the Investment Adviser will apply negative and positive screening, and estimate the borrower's ESG score. Some potential investments will be rejected at this stage if the climate-related risks are likely to be unacceptably high.

Following the due diligence process, the Investment Committee will consider ESG matters as a part of the deliberations. The investment's ESG score will be agreed upon by the committee.

Subsequently, the investment is considered by the Investment Manager and in some cases the Risk Committee of the Board, who take into account both credit quality and ESG profile, including, where appropriate, resilience to climate change.

Finally, each quarter, the Investment Adviser prepares for the Board an ESG report, which reviews the overall portfolio.

#### KEY DEVELOPMENTS

- The Company has a comprehensive framework to identify and assess climate change risk. This is fully integrated into its loan approval, monitoring and risk management processes.



## METRICS AND TARGETS

Disclose the metrics and targets used to assess and manage the relevant climate-related risks and opportunities where such information is material.

### TCFD RECOMMENDED DISCLOSURES

#### A. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Currently, the Company uses the ESG score as its key metric for assessing the environmental profile of its investments. This ESG scoring framework helps the Company allocate capital between projects and to measure its progress over time in a quantitative way. The methodology blends the “E”, “S” and “G” components without allowing strength in one area to offset entirely weakness in another. For example, a polluting company will always get a poor score, even if it has excellent social and governance policies. Moreover, the Fund’s policy is not to lend to companies with a very low E score, of less than one, regardless of the overall ESG score.

Going forward, the Company is looking to widen its range of metrics including potentially greenhouse gas emissions. However, currently this is not possible as the data that is available, in the context of a private debt portfolio, is not comprehensive enough to accurately calculate this type of metric. The ESG score serves as an analogous metric.

#### B. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions and the related risks.

The Company expects to be able to make Scope 1 and Scope 2 disclosures in the near future, and is working with the companies that it lends to in order to calculate or estimate its Scope 3 greenhouse gas emissions.

#### C. Describe the targets used by the organisation to manage climate-related risks and performance against targets.

Currently, the primary target used is to improve year-on-year the portfolio’s weighted average ESG score.

### KEY DEVELOPMENTS

- The Company has improved the average portfolio ESG score from 60.59 to 61.88 over the course of the current financial year, largely as a result of making loans with a strong environmental profile, such as renewable energy and energy efficiency projects.

# Stakeholders

The Board strives to understand the views of the Company's key stakeholders and to take these into consideration as part of its decision making process

## 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.

## 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.

## 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 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 on the following pages.

### **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 68 to 69.

### **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 34 to 47.

### **The need to foster the Company's business relationships with suppliers 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 68 to 69.

In addition, even though the Company has no premises or employees, it has estimated the carbon emissions caused by its Directors, consultants and personnel employed by its Investment Adviser and smaller service providers in the fulfilment of their respective roles relating to management, direction and governance of the Company. It strives to be a carbon neutral entity (backdated to 1 April 2021) through its purchase of appropriate offsetting measures. For further details please refer to the Chair's Statement on page 13 and to the ESG section of our website.

### **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 64 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.





# Stakeholders continued

## 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, as well as 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 offers to meet 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 AGM 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.

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 onwards.

### Outcomes

It was concluded by the Board that offering a scrip dividend alternative was in the best interests of Shareholders as a whole.

As part of this process, it was agreed by the Board that each issue of new Ordinary Shares under the scrip dividend scheme would remain conditional on it being accretive to net asset value; therefore, prior to resolving the allotment of new shares to electing Shareholders, on each occasion the Board assesses the level of Shareholder take-up, the premium to NAV represented by the issue price premium, and the costs associated with each issue.

The Directors are satisfied with the results to date from the scrip dividend scheme, as demonstrated by the level of take-up from each quarterly dividend.

### 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 two periods from late March to early April 2020 and currently, both the result of significant adverse macro-economic events – 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.

## 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 29 March 2022 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 Association of Investment Companies ("AIC"). Refer to the report of the Management Engagement Committee on pages 68 to 69.

# Stakeholders continued

## LENDERS

### Why engage?

The Company's lead lender, RBSI, provides a 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 RBSI is managed by the Investment Adviser and is overseen by the Investment Manager. The Investment Adviser is responsible for notifying RBSI 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 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.

### Why engage?

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.

### How the Company engages

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

The Company's indirect engagement through those responsible for managing relationships with borrowers confirms the positive impact of SEI's investment activities since its IPO is achieved through numerous societal benefits including, but not limited to, the creation of renewable energy, reducing carbon emissions, increasing consumer interconnectivity, achieving efficient use of materials, and reducing the cost of public amenities.

# Principal and emerging risks and uncertainties

The Board is constantly alert to the identification of any emerging risks

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, reputation, solvency or liquidity. The Board has appointed Sanne Fund Management (Guernsey) Limited (formerly International Fund Management Limited) ("SFMGL" or the "Investment Manager") as the AIFM to the Company. SFMGL 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, SFMGL 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 appointments on 30 January 2018 and 1 February 2022 respectively, Kate Thurman and Andrea Finegan, and, until 31 December 2021, Tim Drayson, 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, Chief Risk Officer ("CRO") of the Investment Adviser, provides additional oversight and resource to the Company's risk management function and the due diligence process employed by the Investment Adviser.

The principal and emerging 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 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 any emerging or continuing risks.</li> </ul>

## KEY



Low impact risk



Medium impact risk



High impact risk



# Principal and emerging risks and uncertainties continued

Risk	Potential impact	Mitigation
<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 on some borrowers.</li> <li>• Detailed due diligence and 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 18% (2021: 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>
<b>4</b> <b>COUNTERPARTY RISK</b> 	<p>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.</p>	<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>

## KEY



Low impact risk



Medium impact risk



High impact risk

Risk	Potential impact	Mitigation
<b>5</b> <b>LEVERAGE RISK</b> 	<p>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.</p>	<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 &amp; REGULATORY RISK</b> 	<p>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.</p>	<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> 	<p>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.</p>	<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> 	<p>Brexit, the war in Ukraine and other geopolitical events may have an adverse effect on the Company and its operations.</p>	<ul style="list-style-type: none"> <li>The Risk Committee monitors geopolitical risks and their impact on the portfolio on an ongoing basis, and may seek independent advice on emerging developments likely to affect the Company.</li> </ul>

#### KEY



Low impact risk



Medium impact risk



High impact risk

# Principal and emerging risks and uncertainties continued

## 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, which has continued subsequently, 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; the primary and secondary effects of historically low oil prices; and the market uncertainty arising from the Russian invasion of Ukraine.

Aggressive central banks action to increase global interest rates in order to combat inflation may also give rise to an increased risk of recession, as discussed in the Chair's statement and Investment Adviser's report. To mitigate this risk, the Fund has maintained a high level of floating-rate investments, which will benefit from a higher interest rate environment.

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.



# Governance

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## BOARD LEADERSHIP AND PURPOSE

## Board of Directors

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



**ROBERT JENNINGS, CBE**  
Chairman

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.

Mr Jennings has previously served as a non-executive director of the following companies: Crossrail (2009-2019); Southern Water (2012-2017, including as its Chair from 2014); 3i Infrastructure plc (2018-2021); and Chapter Zero (2019-2021). His role as Chair of the Company is his sole remaining public engagement.



**JONATHAN (JON) BRIDEL**  
Non-executive Director

Jon Bridel is a resident of Guernsey. Mr Bridel 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.



**TIM DRAYSON**  
Non-executive Director

Tim Drayson, is a resident of the United Kingdom and 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 Loan and DCM 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, Tim held senior roles at Morgan Stanley in London as Head of Securitized Products Syndication and Paine Webber in New York, where he traded mortgage products.



**SARIKA PATEL**  
Non-executive Director

Sarika Patel is a resident of the United Kingdom and has over 30 years' experience in a mixture of public and private organisations. She is a Chartered Accountant and a Chartered Marketer and a graduate in law. She is a non-executive director and chairs the audit committees at Foresight Sustainable Forestry Company plc, SDCL Energy Efficiency Income Trust plc and abrdn Equity Income Trust. Sarika is the Chair of Action for Children and is a Board Member of the Office for Nuclear Regulation where she chairs the Audit, Risk and Assurance Committee. She is a member of the Expert Advisory Panel, chaired by the Minister for Brexit Opportunities and Government Efficiency, focused on the Public Bodies Reform Programme.





**JAN PETHICK**  
Non-executive 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.

M R



**SANDRA PLATTS**  
Senior Independent Director

Sandra Platts is a resident of Guernsey. In her role as an independent director, Sandra holds three London listed investment funds, one of which is Sequoia. Sandra was previously MD of Kleinwort Benson in Guernsey and undertook a number of strategic roles as Chief Operating Officer for the wider Kleinwort Benson Group. Mrs Platts holds a Master of Business Administration and is member of the Institute of Directors

A E M N



**JAMES STEWART**  
Non-executive Director

James Stewart is a resident of the United Kingdom and brings a wealth of leadership, international and infrastructure experience across both the public and private sectors. Between 2011 and 2021, James held several senior level positions in KPMG, including as a non-executive member of the KPMG LLP Board and chair of KPMG's Global Infrastructure practice. Prior to this, James was Chief Executive of Infrastructure UK and of Partnerships UK, responsible for supporting major infrastructure projects and the PPP program in the UK. James's earlier experience includes 16 years in investment banking, where he was involved in lending, investing equity and advising on infrastructure projects. James is currently a Trustee of the Shaw Trust and Chair and Trustee of Power for the People.

A E N

KEY

A

Audit Committee

E

ESG and Stakeholder Engagement Committee

M

Management Engagement Committee

R

Risk Committee

N

Remuneration and Nomination Committee

Chair

## BOARD LEADERSHIP AND PURPOSE

# The Sequoia Investment Management Company team

Sequoia Investment Management Company Limited (“Sequoia”) is an experienced investment adviser, which 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

30 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

Over 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

38 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.

## Independent consultants

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



**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).



**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. Kate 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 c. £150 million of commercial debt. Her former executive career included senior roles in asset management and investment banking organisations.



**ANDREA FINEGAN**

Independent consultant to the Board

Andrea Finegan has a strong background in infrastructure finance, including over 20 years spent in the management of infrastructure funds. She is currently independent chair of the Greencoat Capital Valuation Committee, having previously served as COO of Greencoat and was responsible for overseeing the establishment of listed and unlisted investment fund products. Prior to Greencoat, Andrea was responsible for similar management functions at Climate Change Capital and ING Infrastructure Funds.



## CORPORATE GOVERNANCE STATEMENT

# Corporate governance

## AIC Code

- Board leadership and purpose (see pages 58 to 61).
- Division of responsibility (see pages 65 to 67).
- Composition, evaluation and succession (see pages 63, 64 and 74).
- Audit, risk and internal control (see page 67 and pages 68 to 72).
- Remuneration (see pages 73 to 76).

## The Board

Chair

Senior Independent  
Director

Independent  
Directors

## Remuneration and Nomination Committee

Responsible for recommending changes to the composition of the Board, reviewing succession planning and determining the Company's remuneration policy.'

**Read more on pages 73 to 74**

## Audit Committee

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

**Read more on pages 70 to 72**

## ESG and Stakeholder Engagement Committee

Responsible for monitoring the effectiveness of the Company's engagement with key stakeholders and setting the Company's ESG objectives.

**Read more on page 67**

## Management Engagement Committee

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

**Read more on pages 68 to 69**

## Risk Committee

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

**Read more on page 66**

## 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 provisions of the AIC Code of Corporate Governance (the "AIC Code"), which can be found at <https://www.theaic.co.uk>. 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 provisions on issues relevant to listed investment funds. The Board considers that reporting against the principles and provisions 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 Guernsey Financial Services Commission ("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 2022, the Company has complied with the provisions 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.

## COMPOSITION OF THE BOARD AND INDEPENDENCE OF DIRECTORS

As at 31 March 2022, the Board of Directors comprised seven (2021: 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 58 and 59.

Robert Jennings is the Chair of the Board. In accordance with provision 19 of the UK Code, a Chair should not remain in post for more than nine years from the date of their initial appointment.

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 Remuneration and Nomination Committee.

Sarika Patel is the Chair of the Audit Committee.

James Stewart is the Chair of the newly-formed ESG and Stakeholder Engagement 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. Copies of the appointment letters are available for review by Shareholders at the Company's registered office.

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 support from the SID, and it will take action as appropriate based on the results of that evaluation.

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

Under the terms of their appointment, all four original 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 is 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, three new Directors have been appointed during the year, and two of the Directors appointed at the Company's launch will retire without seeking reappointment not 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.

## CORPORATE GOVERNANCE STATEMENT

# Corporate governance continued

**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 prior year. 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.

**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 48 to 52 for additional information. In the furtherance of the Company's ESG aspirations and the increased attention from stakeholders on these matters, the Board has appointed a dedicated committee (the ESG and Stakeholder Engagement Committee – for details see page 67) with the delegated responsibility for addressing relevant matters of stakeholder engagement.

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.

**DIRECTORS' REMUNERATION**

It is the responsibility of the Remuneration and Nomination 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 pages 75 and 76.

**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.

**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 report on pages 48 to 52.

**DIRECTORS' MEETINGS AND ATTENDANCE**

The table below shows the Directors' attendance at Board and Committee meetings during the 2021/22 annual Board cycle.

	Number of meetings held	Robert Jennings <sup>1</sup>	Sandra Platts	Jan Pethick <sup>1</sup>	Jon Bridel	Sarika Patel <sup>1</sup>	James Stewart <sup>1</sup>	Tim Drayson <sup>1</sup>
Board – scheduled	4	4 (4)	4 (4)	4 (4)	4 (4)	3 (3)	1 (1)	1 (1)
Board – ad hoc	8	8 (8)	8 (8)	6 (8)	7 (8)	4 (5)	2 (2)	2 (2)
Audit Committee	3	2 (2)	3 (3)	2 (2)	2 (2)	2 (2)	1 (1)	1 (1)
Risk Committee	7	6 (6)	6 (6)	7 (7)	7 (7)	6 (6)	N/A	1 (1)
Nomination Committee	2	2 (2)	2 (2)	2 (2)	2 (2)	N/A	N/A	N/A
Management Engagement Committee	1	1 (1)	1 (1)	1 (1)	N/A	1 (1)	N/A	N/A
Remuneration and Nomination Committee	1	1 (1)	1 (1)	N/A	N/A	N/A	1 (1)	N/A
ESG and Stakeholder Engagement Committee	1	1 (1)	1 (1)	N/A	N/A	1 (1)	1 (1)	N/A

1. Onshore resident Directors.

The numbers in brackets indicate the number of meetings held during the tenure of the Director or their membership of the specified committee.

Kate Thurman and Andrea Finegan (and, until his appointment to the Board on 1 January 2022, Tim Drayson), the Company's independent consultants, attended a number of Risk Committee and other meetings with the Directors during the year.

**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.



## CORPORATE GOVERNANCE STATEMENT

# Corporate governance continued

**BOARD COMMITTEES****Audit Committee**

Until 31 December 2021, the Audit Committee comprised Sandra Platts, Jon Bridel, Jan Pethick, Robert Jennings and (with effect from 4 August 2021) Sarika Patel, and was chaired by Sandra Platts. With effect from 1 January 2022, the Committee comprises Sarika Patel, Sandra Platts, James Stewart and Tim Drayson, and is chaired by Sarika Patel. At least one member of the Committee has recent and relevant financial experience, in accordance with the provisions of the AIC Code. The Committee meets at least three times a year.

**Key responsibilities**

The key responsibilities of the Audit Committee include reviewing 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 the report of the Audit Committee on pages 70 to 72.

**Risk Committee**

Until 31 December 2021, the Risk Committee comprised Jon Bridel, Robert Jennings, Jan Pethick, Sandra Platts and (with effect from 4 August 2021) Sarika Patel, and was chaired by Jon Bridel. With effect from 1 January 2022, the Committee comprises Jon Bridel, Sarika Patel, Jan Pethick and Tim Drayson, and is chaired by Jon Bridel. The Committee meets at least quarterly.

**Key responsibilities**

The principal responsibility 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 2022.

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 Mr Anurag Gupta since his appointment as CRO to the Investment Adviser, particularly his notable contributors to the risk management framework and the credit disciplines employed by the Investment Adviser.

**Management****Engagement Committee**

Until 31 December 2021, the Management Engagement Committee comprised Jan Pethick, Jon Bridel, Robert Jennings, Sandra Platts and (with effect from 4 August 2021) Sarika Patel, and was chaired by Jan Pethick. With effect from 1 January 2022, the Committee comprises Jan Pethick, Robert Jennings, Sandra Platts and Sarika Patel, and is 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 68 and 69.

**Remuneration and Nomination Committee**

Until 30 March 2022, the Company had a separate Remuneration Committee and Nomination Committee, each comprising Robert Jennings, Sandra Platts, Jan Pethick, Jon Bridel and (with effect from 4 August 2021) Sarika Patel. The Remuneration Committee was chaired by Sandra Platts and the Nomination Committee by Robert Jennings. With effect from 30 March 2022, the two committees were merged to form a combined Remuneration and Nomination Committee (the "Committee"), which comprises Sandra Platts, Robert Jennings and James Stewart, and is chaired by Sandra Platts.

### Key responsibilities

The Committee's key responsibilities include: reviewing the structure, size and composition of the Board; considering the succession planning for Directors and senior executives; reviewing the leadership needs of the organisation and identifying candidates for appointment to the Board, including the need to broaden the diversity of the Board; considering the remuneration of the Directors; and determining the Company's remuneration policy. For details of the remuneration of the Directors during the year, please refer to the Directors' remuneration report on pages 75 to 76.

### ESG and Stakeholder Engagement Committee

The ESG and Stakeholder Engagement Committee was established in March 2022. As at 31 March 2022, the ESG and Stakeholder Engagement Committee comprised James Stewart, Robert Jennings, Sandra Platts and Sarika Patel, and was chaired by James Stewart. The Committee will meet at least twice annually.

### Key responsibilities

The Committee's key responsibilities are to support the Board in monitoring the effectiveness of the Company's engagement with key stakeholders and to set the Company's environmental, social and governance objectives and to review the performance of the Company against those objectives.

### 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 2022, the long-term credit rating of the Custodian as reported by Standard and Poor's is AA-(2021: AA-), which is deemed to be an acceptable level.

Ongoing monthly calls are maintained between the Custodian and the Administrator to discuss any performance issues that may arise.

### Administrator

Administration and Company Secretarial services are provided to the Company by Sanne Fund Services (Guernsey) Limited (formerly 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.

### 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.

## AUDIT, RISK AND INTERNAL CONTROL

# Report of the Management Engagement Committee



**JAN PETHICK**  
Management Engagement  
Committee Chair

“

The Committee is responsible for the regular review of the performance of the Company's key service providers.

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

Until 31 December 2021, the Management Engagement Committee comprised Jan Pethick, Jon Bridel, Robert Jennings, Sandra Platts and (with effect from 4 August 2021) Sarika Patel, and was chaired by Jan Pethick. With effect from 1 January 2022, the Committee comprises Jan Pethick, Robert Jennings, Sandra Platts and Sarika Patel, and is chaired by Jan Pethick. The Committee meets at least once annually.

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 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.

## 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 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 performance of the Custodian;
- reviewing the level of remuneration payable to the Subsidiary Administrator;
- reviewing the performance of the Administrator, in particular whether there had been any effect on service levels following the acquisition of the Administrator by Sanne Group plc;
- reviewing the performance of the Broker; and
- reviewing the performance of the Investment Manager.

The Committee is pleased by the progress made by the Investment Adviser in continuing to strengthen its investment analysis team and risk management function. Whilst the resources 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 framework 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 2022, 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 2022 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. 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

8 July 2022



**AUDIT, RISK AND INTERNAL CONTROL**

# Report of the Audit Committee



**SARIKA PATEL**  
Audit Committee Chair

“

The Committee is responsible for monitoring the effectiveness of the Company's financial reporting process and internal controls.

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**

Until 31 December 2021, the Audit Committee comprised Sandra Platts, Jon Bridel, Jan Pethick, Robert Jennings and (with effect from 4 August 2021) Sarika Patel, and was chaired by Sandra Platts. With effect from 1 January 2022, the Committee comprises Sarika Patel, Sandra Platts, James Stewart and Tim Drayson, and is chaired by Sarika Patel. The Committee meets at least three times a year. The Company considers that the Audit Committee members have sufficient relevant sector experience to enable the Committee to discharge its duties effectively.

All members of the Committee are independent Directors; have no present links with Grant Thornton Limited, the Company's Auditor (the "Auditor" or "Grant Thornton"); 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 58 to 59 of these Financial Statements. 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 significant issues relating to the Financial Statements and other risks and uncertainties identified by the Board. The key issue 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 £1,770,022,999 as at 31 March 2022 (2021: £1,730,455,551), 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. The responsibility for establishing the valuation of the Subsidiary's investments rests with the Investment Manager, subject to final approval by the Board. 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 79.2% (2021: 74.6%) 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 2022, the fair values of the Subsidiary's investments are reasonable. As a result, the Audit Committee is satisfied that as at 31 March 2022, 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, financial position and strategy.

## EXTERNAL AUDITOR

The Audit Committee has responsibility for making a recommendation on the appointment, reappointment or removal of the Auditor. During the year, recognising the benefits of periodically reviewing the role of external Auditor, the Board decided that the audit of the Company should be put out to tender. Following the completion of the formal tender process, the Board, on the advice of the Audit Committee, approved the appointment of Grant Thornton as the Company's external Auditor with effect from the financial year ending 31 March 2022, subject to approval by Shareholders at the Company's 2022 AGM. KPMG, who had served as Auditor of the Company for six years, resigned on 7 December 2021.

During the year, the Audit Committee received and reviewed the audit plan and report from Grant Thornton.

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 2022, 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.

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.

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 2022, no non-audit services were provided by Grant Thornton. Non-audit services were provided by KPMG in relation to the interim review and an assurance report on the Company's ESG scoring framework.

## AUDIT, RISK AND INTERNAL CONTROL

## Report of the Audit Committee continued

## EXTERNAL AUDITOR CONTINUED

The following table summarises the remuneration paid to Grant Thornton and KPMG and to other member firms of the current and previous Auditors for audit and non-audit services.

	For the year ended 31 March 2022 £	For the year ended 31 March 2021 £
Annual audit of the Company – Grant Thornton	145,450	—
Annual audit of the Company – KPMG	—	149,100
Annual audit of the Subsidiary – Grant Thornton	57,550	—
Annual audit of the Subsidiary – KPMG	—	31,380
Interim review of the Company – KPMG	32,500	29,500
	<b>235,500</b>	<b>209,980</b>
ESG assurance report – KPMG LLP	40,800	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 is 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 Related 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.

**SARIKA PATEL**  
Audit Committee Chair

8 July 2022

## REMUNERATION, COMPOSITION AND SUCCESSION

# Report of the Remuneration and Nomination Committee

**SANDRA PLATTS**Remuneration and Nomination  
Committee Chair

Three new Directors join the Board as part of the Company's succession planning.

Until 30 March 2022, the Company had a separate Remuneration Committee and Nomination Committee, each comprising Robert Jennings, Sandra Platts, Jan Pethick, Jon Bridel and (with effect from 4 August 2021) Sarika Patel. The Remuneration Committee was chaired by Sandra Platts and the Nomination Committee by Robert Jennings. With effect from 30 March 2022, the two committees were merged to form a combined Remuneration and Nomination Committee (the "Committee"), which comprises Sandra Platts, Robert Jennings and James Stewart, and is chaired by Sandra Platts.

The Committee 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 Remuneration and Nomination Committee are to:

- consider the remuneration of the Directors and determine the Company's remuneration policy;
- regularly review the structure, size and composition of the Board and make recommendations to the Board with regard to any changes;
- give full consideration to succession planning for Directors, taking into account the challenges and opportunities facing the Company and the skills and expertise needed on the Board in the future; 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 Remuneration and 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 throughout the year as required. All members of the Board have the right to attend Committee meetings. However, other individuals and external advisers may be invited to attend for all or part of any meeting, as and when appropriate and necessary.



## REMUNERATION, COMPOSITION AND SUCCESSION

# Report of the Remuneration and Nomination Committee continued

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

- the remuneration of the Directors and the Company's remuneration policy;
- the increase of the cap on Directors' remuneration;
- consideration of potential candidates for Board succession and recommendation to the Board, cognisant of the Company's aim of broadening the diversity of the Board;
- 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 Committee for approval by the Board.

Following the Committee's review during the prior year of the size, structure, composition and effectiveness of the Board, and conclusion that there was a need to broaden the diversity of the Board, a search process was undertaken to identify potential candidates for Board succession.

The Committee was pleased by the list of very high calibre candidates produced from this process and was delighted to be able to announce the appointments of Sarika Patel (with effect from 4 August 2021), James Stewart and Tim Drayson (both with effect from 1 January 2022) to the Board. Biographies of all three individuals can be found on pages 58 to 59.

The 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.

For details of the Directors' remuneration for the year, please refer to the Directors' remuneration report on pages 75 to 76.

## SANDRA PLATTS

Remuneration and Nomination  
Committee Chair

8 July 2022

## REMUNERATION

## Directors' remuneration report



**SANDRA PLATTS**  
Remuneration and Nomination  
Committee Chair



Directors' remuneration remains largely unchanged.

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 during the year:

	Year ended 31 March 2022 Actual £	Year ended 31 March 2021 Actual £
Robert Jennings (Chair of the Board and of the Nomination Committee until 31 December 2021)	75,000	75,000
Jan Pethick (Chair of the Management Engagement Committee)	54,300	54,300
Jon Bridel (Chair of the Risk Committee)	54,300	54,300
Sandra Platts (Senior Independent Director, Chair of the Audit Committee until 31 December 2021, Chair of the Remuneration Committee until 31 December 2021, Chair of the Remuneration and Nomination Committee with effect from 1 January 2022)	61,075	62,000
Sarika Patel (appointed 4 August 2021, Chair of the Audit Committee with effect from 1 January 2022)	34,500	—
Tim Drayson (appointed 1 January 2022)	12,000	—
James Stewart (appointed 1 January 2022)	12,000	—
<b>Total</b>	<b>303,175</b>	<b>245,600</b>

## REMUNERATION

# Directors' remuneration report continued

In March 2022, the Directors determined that their remuneration packages should remain largely unchanged for the current time and that a further review of remuneration levels would be conducted later in the year.

Robert Jennings is entitled to a fee of £75,000 per annum (2021: £75,000 per annum) in remuneration for his services as Chair of the Board of Directors (remaining at £75,000 per annum with effect from 1 April 2022). The remaining Directors are entitled to a basic fee of £48,000 each per annum (2021: £48,000 per annum) in remuneration for their services as Directors (remaining at £48,000 per annum with effect from 1 April 2022).

Jan Pethick and Jon Bridel are each entitled to a fee of £6,300 per annum (2021: £6,300 per annum) in respect of their roles as Chair of the Management Engagement Committee and Chair of the Risk Committee respectively (remaining at £6,300 per annum with effect from 1 April 2022).

Sandra Platts was entitled to a fee of £10,000 per annum (2021: £10,000 per annum) in respect of her role as Chair of the Audit Committee until 31 December 2021, to a fee of £6,300 per annum (2021: £nil) with effect from 1 January 2022 in respect of her role as Chair of the Remuneration Committee until 30 March 2022 and of the combined Remuneration and Nomination Committee with effect from 30 March 2022 (remaining at £6,300 per annum with effect from 1 April 2022), and to a fee of £4,000 per annum (2021: £4,000 per annum) for serving as the Senior Independent Director (remaining at £4,000 per annum with effect from 1 April 2022).

Sarika Patel was appointed as a Director with effect from 4 August 2021, and is entitled to a fee of £10,000 per annum in respect of her role as Chair of the Audit Committee with effect from 1 January 2022 (remaining at £10,000 per annum with effect from 1 April 2022).

Tim Drayson and James Stewart were appointed as Directors with effect from 1 January 2022. With effect from 1 April 2022, James Stewart is entitled to a fee of £6,300 per annum in respect of his role as Chair of the newly-formed ESG and Stakeholder Engagement Committee.

With effect from 1 April 2022, all Directors have committed to contributing 1% of their fees to support the Company's carbon offsetting initiatives.

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

Robert Jennings, Jan Pethick, Jon Bridel and Sandra Platts were appointed as non-executive Directors by letters issued on 6 January 2015, and subsequently revised on 1 July 2019. Sarika Patel was appointed as a non-executive Director with effect from 4 August 2021. Tim Drayson and James Stewart were appointed as non-executive Directors with effect from 1 January 2022.

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 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 2022 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 and Nomination  
Committee Chair**

8 July 2022

# 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 2022.

## RESULTS AND DIVIDENDS

The results for the year are shown in the Statement of Comprehensive Income on page 92.

The Directors have declared and paid dividends of £110,340,625 during the year ended 31 March 2022 (2021: £103,483,330). 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 30 March 2022 for the financial year ended 31 March 2023. The Company pays dividends on a quarterly basis.

## INDEPENDENT AUDITOR

KPMG Channel Islands Limited was appointed as Auditor on 28 January 2015 and resigned on 7 December 2021. Grant Thornton Limited was appointed as Auditor on 7 December 2021 and a resolution to reappoint Grant Thornton 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 58 to 59.

As at 31 March 2022, the Directors had the following interests in the shares of the Company:

Name	As at 31 March 2022		As at 31 March 2021	
	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	0.01%
Jon Bridel (held by a connected party)	30,000	0.00%	10,452	0.00%
Sandra Platts (in a family RATS)	27,953	0.00%	26,776	0.00%
Sarika Patel	5,000	0.00%	N/A	N/A
Tim Drayson	39,000	0.00%	N/A	N/A

On 25 April 2022, James Stewart's spouse acquired 10,000 shares in the Company.



# Directors' report continued

## GOING CONCERN

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 and the market uncertainty relating to the Ukraine-Russia war. In conducting this review, the Board has also assessed the Company's cash flows for the next 12 months and 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 was further strengthened by another capital raise in March 2021. Moreover, the mark-to-market losses that were incurred at the 2020 year end – which have continued to reverse 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 the reduction in the level of cash income during the prior year, resulting from the impact of COVID-19 and an oil supply glut on certain of the Fund's investments, has largely reversed during the current year as several borrowers who had been permitted to capitalise interest during the COVID-19 pandemic have resumed paying cash interest. 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 and the effects of the ongoing Ukraine-Russia war, 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 2027, taking account of the Company's current position and the potential impact of the principal and emerging risks outlined in this statement.

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 2027 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 outlook for the economy and key financial ratios over the period.

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 £746 million over the next 30 months in the base case scenario, and to approximately £297 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 2024 AGM, may not be passed by Shareholders. The Directors noted the overwhelming majority vote in favour of the Continuation Proposals passed in May 2016, August 2018 and August 2021, and the strong appetite for the Company's investment proposition evidenced by the successful launch in March 2015, and a number of subsequent significantly over-subscribed 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 2027.

## SUBSTANTIAL SHAREHOLDINGS

As at 31 March 2022, the Company had the following shareholding in excess of 5% of the issued share capital:

Name	Number of Ordinary Shares	Percentage
Investec Wealth & Investment	132,666,859	7.50%

## 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 Listing Rules, the Prospectus Rules, the FRC Disclosure Guidance and Transparency Rules ("DTR"), ESMA guidance 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). There are no matters that require disclosure under FCA Listing Rule 9.8.4R relating to arrangements made with a controlling shareholder, waivers of Directors' fees or long-term incentive schemes in force.

## 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.

# Directors' report continued

## 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.

## MARKET ABUSE

The Board and relevant personnel of the Investment Adviser and our other advisers acknowledge and adhere to the Market Abuse Regulation, which was implemented on 3 July 2016.

By order of the Board

## SANDRA PLATTS

Director

8 July 2022

# 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 served during the year, who are listed on pages 58 to 59, 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 ESG report, 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

8 July 2022



# Independent auditor's report

to the members of Sequoia Economic Infrastructure Income Fund Limited

## OPINION

We have audited the financial statements of Sequoia Economic Infrastructure Income Fund Limited (the 'Company') for the year ended 31 March 2022 which comprise the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Statement of Financial Position, the Statement of Cash Flows, and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

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

- give a true and fair view of the state of the Company's affairs as at 31 March 2022 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as issued by IASB; and
- have been prepared in accordance 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 under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey, including the UK FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

## Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

- Obtaining the 12 month going concern assessment performed by management, including the assumptions and sensitivities prepared by management.
- Challenging the appropriateness of management's forecasts by:
  - checking the mathematical accuracy of the cash flow forecast;
  - assessing historical forecasting accuracy by comparing to actuals in prior years;
  - assessing the key assumptions used in the going concern assessment based on our knowledge of the Company and the current economic climate;
  - challenging management's consideration of downside sensitivity analysis by applying further sensitivities to understand the impact on liquidity including reverse stress testing; and
  - assessing whether management has taken into account the principal and emerging risks noted in the annual report.
- We determined whether there is a material uncertainty which casts significant doubt over the ability of the Company to continue as a going concern; and

- We assessed the disclosures in the financial statements relating to going concern, to ensure they were in compliance with IAS 1.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the Company's business model including effects arising from macro-economic uncertainties such as Brexit, Covid-19 and Russia's invasion of Ukraine, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and we analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

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

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

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

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

## OUR APPROACH TO THE AUDIT

### Overview of our audit approach

Overall materiality: £35.5 million, which represents approximately 2% of the Company's Net Asset Value ("NAV") as of 31 March 2022.

Key audit matters were identified as:

- Valuation of non-derivative financial assets at fair value through profit or loss.

Our audit approach was a risk-based substantive audit focused on the investment activities of the Company.

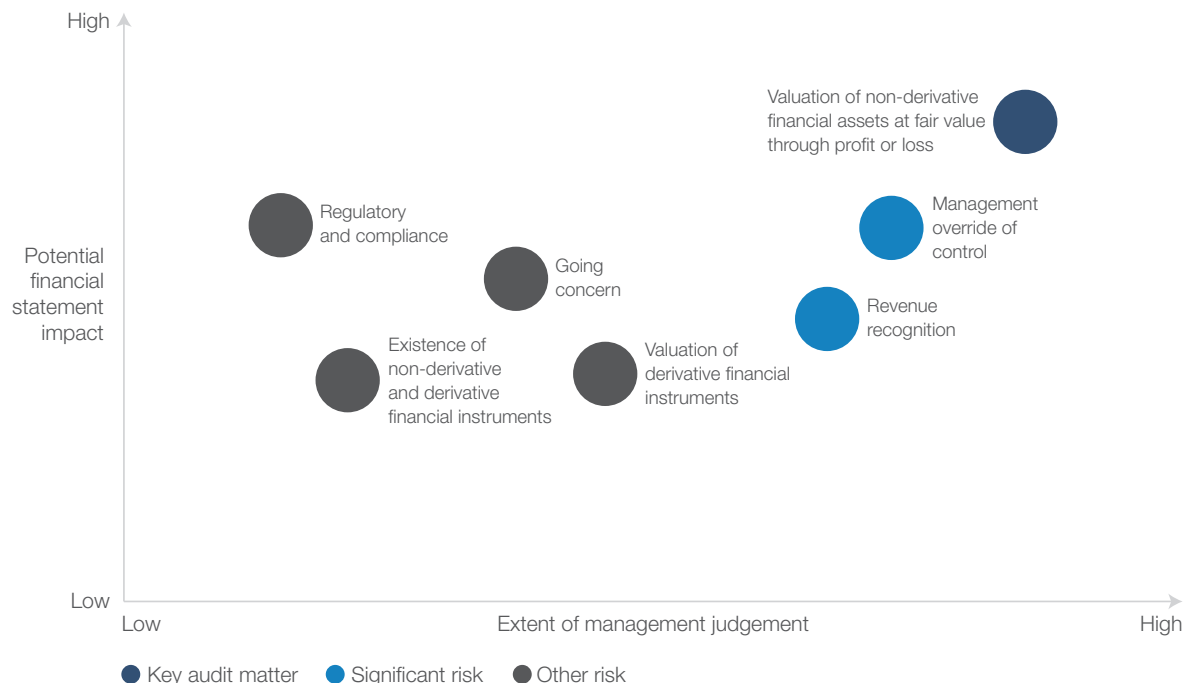


### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that 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 the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



# Independent auditor's report continued

to the members of Sequoia Economic Infrastructure Income Fund Limited

## Key audit matter

### **Valuation of non-derivative financial assets at fair value through profit or loss £1,770 million (2021: £1,730 million)**

Refer to the Report of the Audit Committee on pages 49 and 50, 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).

The Company's investment in Sequoia IDF Asset Holdings S.A. (the "Subsidiary") is carried at fair value through profit or loss and represents the most significant proportion of the Company's net asset value ("NAV"). The fair value of the Subsidiary reflects its NAV, of which the most significant component is its underlying portfolio of senior and subordinated economic infrastructure debt and equity investments, loans, bonds and unlisted equity (together, the "Portfolio").

The underlying Loans and 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.

The underlying Unlisted Equity is fair valued principally on a discounted cash flow basis.

The Company engages a third-party valuation expert (the "Valuation Agent") to perform a fair market valuation review of the Portfolio.

The valuation of the Portfolio involves complexity and subjective management judgements and estimates. The magnitude of the amounts involved means that there is the potential for material misstatement giving rise to a higher risk of misstatement requiring special audit consideration.

Since the main driver of the Company's net asset value is the valuation of the Portfolio, this is the area of focus for stakeholders and a significant audit risk area, and accordingly, this has been reported as a key audit matter.

## How our scope addressed the matter

In responding to the key audit matter, we performed the following audit procedures:

- we obtained an understanding of the processes, policies and methodologies, and controls in relation to the valuation and measurement of investments and performed walkthrough tests to assess the design and implementation of key controls;
- we assessed whether the 31 March 2022 NAV of the Subsidiary was representative of fair value and agreed significant inputs of the Subsidiary's 31 March 2022 NAV to supporting documentation;
- we evaluated the appropriateness of the valuation methodology under IFRS and whether fair value disclosures in the financial statements are appropriate, complete and in accordance with the requirements of IFRS;
- for all level 3 investments our procedures included:
  - obtaining and inspecting the valuation models of the underlying Portfolio;
  - performing detailed testing on a sample of valuation models, testing significant inputs such as the contractual terms, credit ratings and cash flow projections and agreeing it to supporting evidence; and
  - engaging our internal valuation experts to assist us in assessing and analysing the valuation report and the methodologies and key assumptions used by the Valuation Agent by:
    - assessing the scope, competence, capability and objectivity of the Valuation Agent;
    - determining whether the valuation methodologies used are consistent with methods usually used by market participants for similar types of instruments;
    - holding discussions with the Investment Adviser and the Valuation Agent to understand how the underlying assets performed relative to the assumptions underpinning their models and to identify credit and operational issues, if any, that may have impacted the valuation of the Portfolio;
    - using our internal valuation expert's knowledge of the market to assess, challenge and corroborate management's valuation by reference to prices from pricing vendors, or where the pricing information was not available, deriving an independent mark-to-market valuation based on inputs for comparable instruments with similar structural and credit characteristics;
    - determining if the key assumptions used in the valuations are reasonable and that the fair value of investments has been appropriately calculated; and
    - testing key inputs/data (risk free rate, comparable bond margins and credit spread) used in the calculation of the fair value of the Portfolio by verifying the data to third-party sources.
- for non-performing loans our procedures included:
  - agreeing contractual terms such as coupon and repayment terms to supporting documentation;
  - comparing expected interest receipts to actual cash received and evaluated the Investment Advisor's credit memorandums to assess whether there have been specific credit events which would impact the fair value of the investment;
  - recalculating the underlying loan to value (LTV) and testing compliance with other covenants as at the year end; and
  - performing research using publically available information to assess management's information and identify any contradictory evidence.
- for all loans classified as level 2 our procedures included:
  - for level 2 loans valued using information available in the market, we independently obtained prices from Bloomberg and Thompson Reuters or other pricing vendors and compared it to the prices within the valuation model; and
  - for level 2 loans valued by management's expert, we, with the assistance of our internal valuation expert, derived an independent mark-to-model valuation based on market inputs for comparable instruments with similar structural and credit characteristics.

## Our results

We have not identified any matters to report to those charged with governance in relation to the fair value measurement of non-derivative financial assets at fair value through profit or loss.



# Independent auditor's report continued

to the members of Sequoia Economic Infrastructure Income Fund Limited

## OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

Materiality measure	Company
<b>Materiality for financial statements as a whole</b>	We define materiality as the magnitude of misstatement in the financial statements that individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.
Materiality threshold	£35.54 million, which represents approximately 2% of the Company's NAV as of 31 March 2022.
Significant judgements made by the auditor in determining the materiality	In determining materiality, we made the following significant judgements: <ul style="list-style-type: none"> <li>NAV was considered the most appropriate benchmark as the Company's primary performance measures for internal and external reporting are based on NAV; and</li> <li>Our materiality threshold was set at the lower end of our acceptable range due to the Company being a public interest entity and in line with our methodology.</li> </ul>
<b>Performance materiality is used to drive the extent of our testing</b>	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
Performance materiality threshold	£21.3 million which is 60% of financial statement materiality.
Significant judgements made by the auditor in determining the performance materiality	In determining performance materiality we made the following significant judgements: Performance materiality be set at 60% of materiality as this is an initial audit and we have no prior experience and we therefore determined it prudent to use 60%
Significant revision of performance materiality threshold that was made as the audit progressed	No significant revisions were made to the performance materiality threshold during the audit.
<b>Specific materiality</b>	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
Specific materiality	We determine a lower specific a materiality for the following areas: Related party transactions, including Directors remuneration and related disclosures.

## Materiality measure

### Communication of misstatements to the audit committee

Threshold for communication

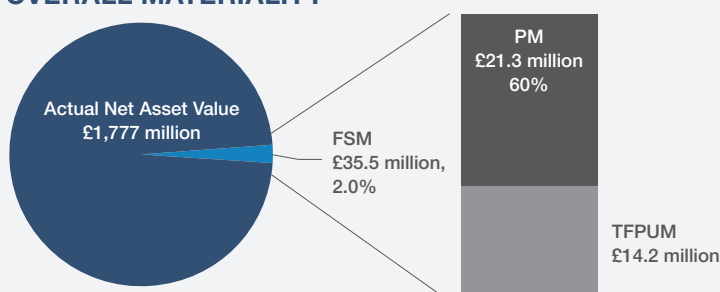
## Company

We determine a threshold for reporting unadjusted differences to the audit committee.

£1.8 million which is 5% of financial statement materiality and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

### OVERALL MATERIALITY



**FSM:** Financial statements materiality, **PM:** Performance materiality, **TFPUM:** Tolerance for potential uncorrected misstatements

### AN OVERVIEW OF THE SCOPE OF OUR AUDIT

We performed a risk-based audit that requires an understanding of the Company's business and in particular matters related to:

- the processing and recording of investment activities. The day-to-day management of the Company's investment portfolio, the custody of its investments and the maintenance of the Company's accounting records is outsourced to third-party service providers. Accordingly, our audit work is focussed on obtaining an understanding of, and evaluating, internal controls at the Company and the third-party service providers, and inspecting records and documents held by these third-party service providers. In addition, the Company engages an investment manager, International Fund Management Limited ("IFML"), to manage the investment portfolio who in turn engages Sequoia Investment Management Company Limited (Investment Adviser) to manage the investment portfolio. We had interaction with the Investment Manager and the Investment Adviser in completing aspects of our audit work;
- we undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls over individual systems and the management of specific risks;
- the majority of our substantive testing focused on the audit of the underlying investment portfolio held through the wholly owned subsidiary and associated disclosures as at the reporting date and the movement in investment holdings during the year; and
- for subjective estimates made by management on valuing non-derivative financial assets at fair value through profit or loss, we engaged an internal expert to confirm the appropriateness of the valuation methodology used with consideration to valuation techniques routinely used by market participants to value similar instruments and to value 100% of non-derivative financial assets at fair value through profit or loss held at year-end.

# Independent auditor's report continued

to the members of Sequoia Economic Infrastructure Income Fund Limited

## OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 55 to 58, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express 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 we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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.

## CORPORATE GOVERNANCE STATEMENT

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Statement specified for our review. Our additional responsibilities with respect to the corporate governance statement and other information are described in the Reporting on other information section of this report.

The Company has reported compliance against the AIC Code of Corporate Governance (the "Code") which has been endorsed by the UK Financial Reporting Council as being consistent with the UK Corporate Governance Code to meet the Company's obligations, as an investment company, under the Listing Rules of the FCA.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement, included within the continuous risk management section, the corporate governance report, the audit and risk committee report, the Directors' report and the Directors' responsibilities statement, is materially consistent with the financial statements or our knowledge obtained during the audit:

- the directors' statement in the financial statements on page 96 about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the directors' explanation in the annual report on page 78 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 their liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions;

- the directors' statement in the financial statements on page 81 that they consider 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 performance, business model and strategy;
- the directors' confirmation in the annual report on page 53 that they have carried out a robust assessment of the principal and emerging risks facing the Company including the impact of Brexit, Covid-19, Russia's invasion of Ukraine and the disclosures in the annual report that describe the principal risks, procedures to identify emerging risks and an explanation of how they are being managed or mitigated including the impact of Brexit, Covid-19, Russia's invasion of Ukraine;
- the section of the annual report on page 67 that describes the review of the effectiveness of the Company's risk management and internal control systems, covering all material controls, including financial, operational and compliance controls; and
- the section of the annual report on pages 70 to 72 describing the work of the audit committee, including significant issues that the audit committee considered relating to the financial statements and how these issues were addressed.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

## RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the directors' responsibilities statement set out on page 81, the directors are responsible for the preparation of the financial statements which give a true and fair view in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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



# Independent auditor's report continued

to the members of Sequoia Economic Infrastructure Income Fund Limited

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements regarding irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Company and the industry in which it operates. We determined that the following laws and regulations were most significant: International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), Companies (Guernsey) Law, 2008, the Association of Investment Companies (AIC) Statement of Recommended Practice (SORP), UK Corporate governance code, FCA Listing Rules, FRC Disclosure Guidance and Transparency Rules, Principles and recommendations of the AIC Code of Corporate Governance and the relevant tax compliance regulations in the jurisdictions in which the Company operates. In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to health and safety, employee matters, and bribery and corruption practices;
- We understood how the Company is complying with those legal and regulatory frameworks by, making inquiries to the management, and those responsible for legal and compliance procedures. We corroborated our inquiries through our review of board minutes and papers provided to the Audit Committee;
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:
  - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
  - challenging assumptions and judgements made by management in its significant accounting estimates;
  - utilising a valuation specialist to perform stress testing on managements' valuation calculations;
  - identifying and testing journal entries, that exhibit certain risk characteristics determined by the engagement team and corroborating to supporting documents to understand management's rationale and economic substance; and
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

- In assessing the potential risks of material misstatement, we obtained an understanding of:
- the Company's operations, including the nature of its revenue sources, products and services and its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement;
- the applicable statutory provisions; and
- the Company's control environment, including:
  - the policies and procedures implemented to comply with the requirements of its regulator, including the adequacy of the training to inform staff of the relevant legislation rules and other regulations of the regulator;
  - the adequacy of procedures for authorisation of transactions, internal review procedures over the Company's compliance with regulatory requirements;
  - the authority of, and resources available to the compliance officer; and
  - procedures to ensure that possible breaches of requirements are appropriately investigated and reported.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations from events and transactions reflected in the financial statements, the less likely we would become aware of it.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

Following the recommendation of the audit committee, we were appointed by the Board and approved at the Annual General Meeting on 8 December 2021 to audit the financial statements for the year ended 31 March 2022 and subsequent financial periods.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

## USE OF OUR REPORT

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

## CYRIL SWALE

For and on behalf of Grant Thornton Limited

Chartered Accountants  
St Peter Port  
Guernsey  
10 July 2022

# Statement of comprehensive income

For the year ended 31 March 2022

	Note	Year ended 31 March 2022 £	Year ended 31 March 2021 £
<b>Revenue</b>			
Net (losses)/gains on non-derivative financial assets at fair value through profit or loss	6	(27,520,112)	6,958,954
Net (losses)/gains on derivative financial assets at fair value through profit or loss	7	(39,932,471)	106,075,653
Investment income	9	151,920,575	114,979,084
Net foreign exchange (losses)/gains		(1,023,582)	419,582
<b>Total revenue</b>		<b>83,444,410</b>	<b>228,433,273</b>
<b>Expenses</b>			
Investment Adviser fees	10	11,836,201	11,253,254
Investment Manager fees	10	349,634	344,938
Directors' fees and expenses	10	305,202	246,127
Administration fees	10	453,630	440,311
Auditor's fees		188,598	198,590
Legal and professional fees <sup>1</sup>		1,327,377	520,366
Valuation fees		821,400	759,500
Custodian fees		255,221	249,084
Listing, regulatory and statutory fees		168,318	148,768
Other expenses		497,617	219,945
<b>Total operating expenses</b>		<b>16,203,198</b>	<b>14,380,883</b>
Loan finance costs	15	4,522,522	4,094,586
<b>Total expenses</b>		<b>20,725,720</b>	<b>18,475,469</b>
<b>Profit and total comprehensive income for the year</b>		<b>62,718,690</b>	<b>209,957,804</b>
<b>Basic and diluted earnings per Ordinary Share</b>	13	<b>3.55p</b>	<b>12.62p</b>

1. Legal and professional fees includes an amount of £666,019 in the current year in respect of fees relating to the Fund's investment in Bulb Energy. All items in the above statement are from continuing operations.

# Statement of changes in Shareholders' equity

For the year ended 31 March 2022

Year ended 31 March 2022	Note	Share capital £	Retained (losses)/ earnings £	Total £
<b>At 1 April 2021</b>		<b>1,831,856,145</b>	<b>(12,725,764)</b>	<b>1,819,130,381</b>
Issue of Ordinary Shares during the year, net of issue costs	12	5,534,386	—	5,534,386
Total comprehensive income for the year		—	62,718,690	62,718,690
Dividends paid during the year	4	—	(110,340,625)	(110,340,625)
<b>At 31 March 2022</b>		<b>1,837,390,531</b>	<b>(60,347,699)</b>	<b>1,777,042,832</b>

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	112,790,636	—	112,790,636
Total comprehensive income for the year		—	209,957,804	209,957,804
Dividends paid during the year	4	—	(103,483,330)	(103,483,330)
<b>At 31 March 2021</b>		<b>1,831,856,145</b>	<b>(12,725,764)</b>	<b>1,819,130,381</b>

The accompanying notes on pages 96 to 119 form an integral part of the Financial Statements.

# Statement of financial position

At 31 March 2022

	Note	31 March 2022 £	31 March 2021 £
<b>Non-current assets</b>			
Non-derivative financial assets at fair value through profit or loss	6	<b>1,770,022,999</b>	1,730,455,551
<b>Current assets</b>			
Cash and cash equivalents	8	<b>8,759,040</b>	20,018,189
Trade and other receivables	14	<b>143,092,101</b>	108,061,966
Derivative financial assets at fair value through profit or loss	7	<b>17,536,684</b>	51,501,035
<b>Total current assets</b>		<b>169,387,825</b>	179,581,190
<b>Total assets</b>		<b>1,939,410,824</b>	1,910,036,741
<b>Current liabilities</b>			
Loan payable	15	—	83,894,203
Trade and other payables	16	<b>3,855,430</b>	3,487,807
Derivative financial liabilities at fair value through profit or loss	7	<b>37,143,642</b>	3,524,350
<b>Total current liabilities</b>		<b>40,999,072</b>	90,906,360
<b>Non-current liabilities</b>			
Loan payable	15	<b>121,368,920</b>	—
<b>Total liabilities</b>		<b>162,367,992</b>	90,906,360
<b>Net assets</b>		<b>1,777,042,832</b>	1,819,130,381
<b>Equity</b>			
Share capital	12	<b>1,837,390,531</b>	1,831,856,145
Retained losses		<b>(60,347,699)</b>	(12,725,764)
<b>Total equity</b>		<b>1,777,042,832</b>	1,819,130,381
<b>Number of Ordinary Shares</b>	12	<b>1,768,238,998</b>	1,763,120,710
<b>Net asset value per Ordinary Share</b>		<b>100.50p</b>	103.18p

The Financial Statements on pages 92 to 119 were approved and authorised for issue by the Board of Directors on 8 July 2022 and signed on its behalf by:

**SANDRA PLATTS**

Director

The accompanying notes on pages 96 to 119 form an integral part of the Financial Statements.



# Statement of cash flows

For the year ended 31 March 2022

	Note	Year ended 31 March 2022 £	Year ended 31 March 2021 £
<b>Cash flows from operating activities</b>			
Profit for the year		62,718,690	209,957,804
Adjustments for:			
Net losses/(gains) on non-derivative financial assets at fair value through profit or loss	6	27,520,112	(6,958,954)
Net losses/(gains) on derivative financial assets at fair value through profit or loss	7	39,932,471	(106,075,653)
VFN interest capitalised	6	(7,309,761)	—
Investment Adviser fees settled through issue of Ordinary Shares		878,100	842,142
Net foreign exchange loss/(gain)		1,023,582	(419,582)
Loan finance costs	15	4,522,522	4,094,586
Increase in trade and other receivables (excluding finance costs)	14	(33,004,700)	(18,752,224)
Increase in trade and other payables (excluding finance costs)	16	45,287	294,102
		96,326,303	82,982,221
Cash received on settled forward contracts		43,775,627	61,655,940
Cash paid on settled forward contracts		(16,124,456)	(44,633,971)
Purchases of investments	6	(399,588,003)	(401,557,473)
Sales of investments	6	339,810,204	229,553,308
<b>Net cash inflow/(outflow) from operating activities</b>		<b>64,199,675</b>	<b>(71,999,975)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of Ordinary Shares, net of issue costs <sup>1</sup>		—	108,633,236
Proceeds from loan drawdowns	15	36,023,268	175,183,485
Loan repayments	15	—	(125,000,000)
Payment of loan finance costs		(5,772,304)	(3,365,984)
Dividends paid (excluding scrip dividends) <sup>2</sup>		(105,684,339)	(100,168,072)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(75,433,375)</b>	<b>55,282,665</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(11,233,700)</b>	<b>(16,717,310)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>20,018,189</b>	<b>37,581,698</b>
Effect of foreign exchange rate changes on cash and cash equivalents during the year		(25,449)	(846,199)
<b>Cash and cash equivalents at end of year</b>		<b>8,759,040</b>	<b>20,018,189</b>

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 96 to 119 form an integral part of the Financial Statements.

# Notes to the Financial Statements

For the year ended 31 March 2022

## 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 GFSC as a registered closed-ended collective investment scheme under The Registered Collective Investment Scheme Rules and Guidance 2021. 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 prior 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 Sanne Fund Management (Guernsey) Limited (formerly 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, the Listing Rules and the FCA 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 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 and the market uncertainty relating to the Ukraine-Russia war. In conducting this review, the Board has also assessed the Company's cash flows for the next 12 months and 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 was further strengthened by another capital raise in March 2021. Moreover, the losses that were incurred at the 2020 year end – which have continued to reverse 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 the reduction in the level of cash income during the prior year, resulting from the impact of COVID-19 and an oil supply glut on certain of the Fund's investments, has largely reversed during the current year as several borrowers who had been permitted to capitalise interest during the COVID-19 pandemic have resumed paying cash interest. The interest income cash flows 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 and the effects of the ongoing Ukraine-Russia war, has a strong balance sheet and adequate financial resources to meet its liabilities as they fall due.

### Amended accounting standards effective and adopted

In August 2020, the IASB completed its "Replacement issues in the context of the IBOR reform" project, which has amended certain existing standards, effective for periods commencing on or after 1 January 2021.

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 and the disclosure of accounting policies, effective for periods commencing on or after 1 January 2023);
- IAS 8 (amended), "Accounting Policies, Changes in Accounting Estimates and Errors" (amendments regarding the definition of accounting estimates, effective for periods commencing on or after 1 January 2023); and
- IAS 37 (amended), "Provisions, Contingent Liabilities and Contingent Assets" (amendments regarding the costs to include when determining whether a contract is onerous, effective for periods commencing on or after 1 January 2022).

In addition, the IASB has completed the following projects:

- "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
- "Amendments updating a reference to the Conceptual Framework", published in May 2020. This project has amended certain existing standards effective for accounting periods commencing on or after 1 January 2022.

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 of 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 interest

Interest on VFNs issued by the Subsidiary is paid to the Company on a quarterly basis. VFN interest 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 instrument – 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 of the Statement of Comprehensive Income on an accruals basis.

# Notes to the Financial Statements continued

For the year ended 31 March 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### 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 at the fair value of the services received. Share-based payments are recognised as an expense in profit or loss of the Statement of Comprehensive Income and in equity as an increase in share capital.

### 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).

### 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 and 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, other than prepaid expenses.

### 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 interest 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 rate method of any difference between the initial amount recognised and the maturity amount, minus any allowance for expected credit losses.

The calculation of the effective interest rate applicable to the Company's RCF incorporates any appropriate adjustment related to the sustainability-linked interest margin.

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 2022 and 31 March 2021, the carrying amount of the short-term receivables and payables 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 when the financial asset and substantially all the risks and rewards thereof are transferred.

A financial liability is derecognised when it is extinguished, 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 of 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 Chief Operating Decision Maker, which is the Board, is of the opinion that the Group 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, with the aim of providing sustained long-term distributions and capital appreciation. The financial information used by the Chief Operating Decision Maker to manage the Group presents the business as a single segment.

Segment information is measured on the same basis as that used in the preparation of the Group's Consolidated Financial Statements.

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



# Notes to the Financial Statements continued

For the year ended 31 March 2022

## 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.

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 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 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

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 2022:

Period to	Payment date	Dividend rate per Ordinary Share (pence)	Net dividend payable (£)	Record date	Ex-dividend date
31 March 2021	<b>24 May 2021</b>	<b>1.5625</b>	<b>27,548,730</b>	<b>30 April 2021</b>	<b>29 April 2021</b>
30 June 2021	<b>6 September 2021</b>	<b>1.5625</b>	<b>27,577,235</b>	<b>30 July 2021</b>	<b>29 July 2021</b>
30 September 2021	<b>3 December 2021</b>	<b>1.5625</b>	<b>27,599,092</b>	<b>29 October 2021</b>	<b>28 October 2021</b>
31 December 2021	<b>4 March 2022</b>	<b>1.5625</b>	<b>27,615,568</b>	<b>28 January 2022</b>	<b>27 January 2022</b>

On 21 April 2022, the Company declared an interim dividend of 1.5625p per Ordinary Share in respect of the quarter ended 31 March 2022. The dividend was paid on 27 May 2022.

The Company paid 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	22 May 2020	1.5625	25,854,241	24 April 2020	23 April 2020
30 June 2020	28 August 2020	1.5625	25,854,241	24 July 2020	23 July 2020
30 September 2020	27 November 2020	1.5625	25,880,531	23 October 2020	22 October 2020
31 December 2020	5 March 2021	1.5625	25,894,317	29 January 2021	28 January 2021

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 2022, the amount of dividends for which Shareholders took up the scrip dividend alternative was £4,656,286 (2021: £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.

# Notes to the Financial Statements continued

For the year ended 31 March 2022

## 5. FINANCIAL RISK MANAGEMENT CONTINUED

### Market risk continued

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.

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 2022		31 March 2021	
	Range of interest rates	£	Range of interest rates	£
Investments with floating interest rates	0.00% to 13.01%	903,607,228	0.00% to 12.73%	930,981,531
Investments with fixed interest rates	0.00% to 18.00%	885,571,623	0.00% to 11.00%	771,596,280
Non-interest-bearing investments	N/A	15,353,710	N/A	12,532,958
Financial assets at fair value through profit or loss (note 6)		1,804,532,561		1,715,110,769

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 2022 effect on net assets and profit or loss £	31 March 2021 effect on net assets and profit or loss £
+1%	(37,382,019)	(35,066,547)
-1%	40,110,729	38,056,100

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 prior or current years and none were in place at the prior or current 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 (see note 7) are taken out to hedge currency exposure existing at the Subsidiary level.

	31 March 2022 £	31 March 2021 £
<b>USD exposure</b>		
Financial assets at fair value through profit or loss	1,006,916,909	897,519,803
Forward foreign exchange contracts	(968,553,620)	(941,322,553)
Cash and cash equivalents	30,860,267	13,512,834
Trade and other receivables	9,761,497	10,154,628
Loan payable	(42,626,352)	(11,594,203)
Trade and other payables	(108,791)	(16,771)
<b>Net USD exposure</b>	<b>36,249,910</b>	<b>(31,746,262)</b>
<b>EUR exposure</b>		
Financial assets at fair value through profit or loss	78,813,768	447,739,330
Forward foreign exchange contracts	(571,624,503)	(494,974,427)
Cash and cash equivalents	25,719,623	4,519,290
Trade and other receivables	7,295,584	5,715,214
Trade and other payables	(26,147)	(48,672)
<b>Net EUR exposure</b>	<b>(59,821,675)</b>	<b>(37,049,265)</b>
<b>NOK exposure</b>		
Financial assets at fair value through profit or loss	19,366,717	18,000,714
Forward foreign exchange contracts	(18,312,662)	(22,648,464)
Cash and cash equivalents	467,594	436,276
Trade and other receivables	157,688	179,529
<b>Net NOK exposure</b>	<b>1,679,337</b>	<b>(4,031,945)</b>
<b>AUD exposure</b>		
Financial assets at fair value through profit or loss	8,215,427	42,223,203
Forward foreign exchange contracts	(9,174,312)	(41,317,761)
Cash and cash equivalents	—	—
Trade and other receivables	1,033,775	682,259
<b>Net AUD exposure</b>	<b>74,890</b>	<b>1,587,701</b>
<b>Total exposure</b>	<b>(21,817,538)</b>	<b>(71,239,771)</b>

	Possible reasonable change in exchange rate	31 March 2022 net exposure £	31 March 2022 effect on net assets and profit or loss £	Possible reasonable change in exchange rate	31 March 2021 net exposure £	31 March 2021 effect on net assets and profit or loss £
USD/GBP	+/- 5%	36,249,910	+/- 1,812,496	+/- 5%	(31,746,262)	-/+ 1,587,313
EUR/GBP	+/- 5%	(59,821,675)	-/+ 2,991,084	+/- 5%	(37,049,265)	-/+ 1,852,463
NOK/GBP	+/- 5%	1,679,337	+/- 83,967	+/- 5%	(4,031,945)	-/+ 201,597
AUD/GBP	+/- 5%	74,890	+/- 3,745	+/- 5%	1,587,701	+/- 79,385

# Notes to the Financial Statements continued

For the year ended 31 March 2022

## 5. FINANCIAL RISK MANAGEMENT CONTINUED

### Market risk continued

#### Currency risk continued

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.

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 2022 £	31 March 2021 £
Sterling	291,219,740	309,627,719
US Dollar	1,006,916,909	897,519,803
Euro	478,813,768	447,739,330
Norwegian Krone	19,366,717	18,000,714
Australian Dollar	8,215,427	42,223,203
<b>Total</b>	<b>1,804,532,561</b>	<b>1,715,110,769</b>

### 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 2022 £	31 March 2021 £
BB- to BB+	29,472,563	56,382,852
B- to B+	149,609,675	213,782,120
CCC- to CCC+	12,051,520	670,107
Unrated	1,613,398,803	1,444,275,690
	<b>1,804,532,561</b>	<b>1,715,110,769</b>

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.

Five investments rated in the CCC band at the year end have been downgraded during the current and prior years from B or above.



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

	31 March 2022 £	31 March 2021 £
Non-derivative financial assets at fair value through profit or loss	<b>1,770,022,999</b>	1,730,455,551
Cash and cash equivalents	<b>8,759,040</b>	20,018,189
Trade and other receivables	<b>140,558,541</b>	107,623,905
Derivative financial assets at fair value through profit or loss	<b>17,536,684</b>	51,501,035
	<b>1,936,877,264</b>	1,909,598,680

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+ (2021: 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"), Morgan Stanley, Nomura Bank International ("Nomura"), 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); Morgan Stanley: A-2; Nomura: F1 (Fitch); and RBSI: A-2 (2021: 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 2022 £	31 March 2021 £
United States of America/Canada	<b>911,301,521</b>	812,492,696
Europe	<b>488,770,168</b>	454,503,091
United Kingdom	<b>315,087,310</b>	329,926,631
Australia	<b>89,373,562</b>	118,188,351
<b>Subsidiary financial assets at fair value through profit or loss (note 6)</b>	<b>1,804,532,561</b>	1,715,110,769

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 2022</b>	<b>3.59</b>	<b>1.32</b>
	Largest portfolio holding of a single asset % of total portfolio	Average portfolio holding % of total portfolio
31 March 2021	3.79	1.39

# Notes to the Financial Statements continued

For the year ended 31 March 2022

## 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 2022 £	31 March 2021 £
Accommodation	91,727,585	185,205,708
Power	340,451,637	232,318,888
Renewable energy	164,221,483	207,202,711
Telecommunication, media and technology	502,016,613	265,414,467
Transport	149,302,523	254,637,163
Transportation equipment	198,033,196	226,102,271
Utilities	120,128,618	157,978,661
Other	238,650,906	186,250,900
<b>Subsidiary financial assets at fair value through profit or loss (note 6)</b>	<b>1,804,532,561</b>	<b>1,715,110,769</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 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 2022 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. Capital is managed in accordance with the investment policy, in pursuit of its investment objectives. Share buy-backs may be utilised to manage any discount of share price to NAV, and the Company has introduced a scrip dividend facility to enhance share ownership where this will be accretive to NAV. 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 an RCF of £280 million (with effect from 15 November 2021, £325 million) with a consortium of three banks (with effect from 15 November 2021, four 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 2022 £	Year ended 31 March 2021 £
Cost at the start of the year	1,796,521,620	1,624,517,455
VFNs purchased during the year	399,588,003	401,557,473
VFNs redeemed during the year	(339,810,204)	(229,553,308)
Capitalised interest on VFNs	7,309,761	—
Cost at the end of the year	1,863,609,180	1,796,521,620
Net unrealised losses on non-derivative financial assets at the end of the year	(93,586,181)	(66,066,069)
<b>Non-derivative financial assets at fair value through profit or loss at the end of the year</b>	<b>1,770,022,999</b>	<b>1,730,455,551</b>

No VFN interest was capitalised during the prior year.

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 2022 £	31 March 2021 £
Subsidiary's non-derivative financial assets at fair value through profit or loss	1,804,532,561	1,715,110,769
Subsidiary's net current (liabilities)/assets	(34,509,562)	15,344,782
<b>Company's non-derivative financial assets at fair value through profit or loss</b>	<b>1,770,022,999</b>	<b>1,730,455,551</b>

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

# Notes to the Financial Statements continued

For the year ended 31 March 2022

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

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 2022 £	Year ended 31 March 2021 £
Unrealised foreign exchange gains/(losses) on VFNs	44,119,923	(116,070,950)
Capitalised interest on VFNs	7,309,761	—
Unrealised (loss)/gain on revaluation of the Subsidiary	(71,640,035)	123,029,904
<b>Net (losses)/gains on non-derivative financial assets at fair value through profit or loss</b>	<b>(20,210,351)</b>	<b>6,958,954</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 2022 comprises the following:

	Year ended 31 March 2022 £	Year ended 31 March 2021 £
<b>Subsidiary</b>		
Investment income during the year	131,663,372	124,057,619
Net return on financial assets and liabilities during the year, including foreign exchange and VFN interest payable	(217,749,529)	(7,496,864)
Net other income during the year	14,446,122	6,469,149
Subsidiary (losses)/gains during the year	(71,640,035)	123,029,904
Subsidiary losses brought forward	(28,127,663)	(151,157,567)
<b>Subsidiary losses carried forward at the end of the year</b>	<b>(99,767,698)</b>	<b>(28,127,663)</b>
<b>Company</b>		
Unrealised foreign exchange (losses)/gains on VFNs brought forward	(37,938,406)	78,132,544
Unrealised foreign exchange gains/(losses) on VFNs during the year	44,119,923	(116,070,950)
<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>(93,586,181)</b>	<b>(66,066,069)</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 2022				
	Level 1 £	Level 2 £	Level 3 £	Total £
<b>Assets</b>				
Non-derivative financial assets at fair value through profit or loss	—	—	1,770,022,999	1,770,022,999
Derivative financial assets at fair value through profit or loss	—	17,536,684	—	17,536,684
<b>Total</b>	—	17,536,684	1,770,022,999	1,787,559,683
<b>Liabilities</b>				
Derivative financial liabilities at fair value through profit or loss	—	37,143,642	—	37,143,642
<b>Total</b>	—	37,143,642	—	37,143,642

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

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 2022 £	Year ended 31 March 2021 £
Opening balance	1,730,455,551	1,551,492,432
Purchases	399,588,003	401,557,473
Sales	(339,810,204)	(229,553,308)
Capitalised interest	7,309,761	—
Net (losses)/gains on non-derivative financial assets in the year	(27,520,112)	6,958,954
<b>Closing balance</b>	<b>1,770,022,999</b>	<b>1,730,455,551</b>



# Notes to the Financial Statements continued

For the year ended 31 March 2022

## 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 2022			
	Level 1 £	Level 2 £	Level 3 £	Total £
Non-derivative financial assets at fair value through profit or loss	—	773,506,515	1,031,026,046	1,804,532,561

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

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 2022. 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 2022 Type	Sector	Fair value £	Primary valuation technique	Significant unobservable inputs	Range input
Private debt	Accommodation	4,536,829	Discounted cash flow	Discount rate	7.2%-7.2%
Private debt	Power	233,183,201	Discounted cash flow	Discount rate	6.7%-12.6%
Private debt	Renewable energy	137,697,394	Discounted cash flow	Discount rate	4.0%-8.5%
Private debt	TMT	312,833,991	Discounted cash flow	Discount rate	5.4%-9.0%
Private debt	Transport	93,657,988	Discounted cash flow	Discount rate	0.0%-9.0%
Private debt	Transport assets	59,249,231	Discounted cash flow	Discount rate	5.6%-15.2%
Private debt	Utilities	43,137,892	Discounted cash flow	Discount rate	8.0%-9.5%
Private equity	Utilities	15,353,710	Discounted cash flow	Discount rate	20.0%-30.0%
Private debt	Other	109,982,544	Discounted cash flow	Discount rate	6.2%-19.3%
Securitisations (ABS)	Transport assets	21,393,265	Unadjusted broker quote	N/A	N/A
		1,031,026,046			

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%-20.0%
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			

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 2022 effect on net assets and profit or loss £	31 March 2021 effect on net assets and profit or loss £
Discount rate	+1%	(30,045,418)	(22,659,763)
	-1%	32,266,790	24,704,688

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.

### 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.

# Notes to the Financial Statements continued

For the year ended 31 March 2022

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

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

#### Performing portfolio assets continued

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.

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.

#### Non-performing portfolio assets

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 2022, there were three non-performing assets in the portfolio (2021: two) with a total value of £86.6 million (2021: £78.7 million).

#### 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.

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

As at 31 March 2022, the Company had the following outstanding commitments in respect of open forward foreign exchange contracts, by currency and by counterparty.

31 March 2022 Selling currency	Currency amount	Buying currency	GBP amount £	Unrealised gains £	Unrealised losses £	Net unrealised gains/(losses) £
USD	1,374,767,700	GBP	1,011,565,915	2,149,958	(35,119,600)	(32,969,642)
EUR	657,100,000	GBP	571,624,503	12,740,907	(1,147,537)	11,593,370
NOK	218,000,000	GBP	18,312,662	—	(612,065)	(612,065)
AUD	16,500,000	GBP	9,174,312	—	(264,440)	(264,440)
			1,610,677,392	14,890,865	(37,143,642)	(22,252,777)
<b>Buying currency</b>						
USD	60,000,000	GBP	(43,012,294)	2,645,819	—	2,645,819
			(43,012,294)	2,645,819	—	2,645,819
			1,567,665,098	17,536,684	(37,143,642)	(19,606,958)

				Unrealised gains £	Unrealised losses £	Net unrealised gains £
<b>Counterparty</b>						
Global Reach				—	(1,371,023)	(1,371,023)
Investec Bank				3,614,476	(9,539,921)	(5,925,445)
Macquarie				12,483,675	(3,863,531)	8,620,144
Morgan Stanley				—	(490,671)	(490,671)
Nomura				980,010	(15,032,218)	(14,052,208)
RBSI				458,523	(6,846,278)	(6,387,755)
				<b>17,536,684</b>	<b>(37,143,642)</b>	<b>(19,606,958)</b>
31 March 2021	Currency	Buying	GBP	Unrealised	Unrealised	Net unrealised
Selling currency	amount	currency	amount	gains	losses	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
Buying currency						
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
<b>Counterparty</b>				Unrealised gains £	Unrealised losses £	Net unrealised gains £
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>

All forward foreign exchange positions at the year end were held with Global Reach, Investec Bank (Channel Islands) Limited, Macquarie Bank Limited, Morgan Stanley, Nomura Bank International or the Royal Bank of Scotland International, 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 8 April 2022 to 14 December 2023 (2021: 1 April 2021 to 29 July 2022).

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

	Year ended 31 March 2022 £	Year ended 31 March 2021 £
Net realised gains on forward foreign exchange contracts during the year	<b>27,651,171</b>	17,021,969
Net unrealised (losses)/gains on forward foreign exchange contracts during the year	<b>(67,583,642)</b>	89,053,684
<b>Net (losses)/gains on forward foreign exchange contracts during the year</b>	<b>(39,932,471)</b>	106,075,653

As at 31 March 2022, £185 (2021: £nil) was held as collateral in margin accounts.

# Notes to the Financial Statements continued

For the year ended 31 March 2022

## 8. CASH AND CASH EQUIVALENTS

	31 March 2022 £	31 March 2021 £
Cash held on call or overnight deposit accounts	<b>8,759,040</b>	20,018,189
	<b>8,759,040</b>	20,018,189

Under the terms of its forward foreign exchange trading agreements with Global Reach Partners, Investec Bank (Channel Islands) Limited, Macquarie Bank Limited, Morgan Stanley, Nomura International and Royal Bank of Scotland International, 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 2022, £185 (2021: £nil) was held in collateral accounts.

## 9. INVESTMENT INCOME

	Year ended 31 March 2022 £	Year ended 31 March 2021 £
Investment income on financial assets carried at amortised cost:		
Cash and cash equivalents	—	633
Investment income on the Company's non-derivative financial assets at fair value through profit and loss	<b>151,920,575</b>	114,978,451
	<b>151,920,575</b>	114,979,084

## 10. RELATED PARTIES AND OTHER MATERIAL CONTRACTS

### Transactions with Investment Adviser and Investment Manager

#### 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). During the year, £1,171,029 was paid to the Investment Adviser in respect of such fees, of which £878,100 was settled by means of share-based payments.

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.

On 27 August 2021, the Company issued 259,457 Ordinary Shares to the Investment Adviser in relation to fees payable for the period ended 30 June 2021.

On 26 November 2021, the Company issued 280,150 Ordinary Shares to the Investment Adviser in relation to fees payable for the period ended 30 September 2021.

On 8 March 2022, the Investment Adviser acquired 294,645 Ordinary Shares in the market in relation to fees payable for the period ended 31 December 2021.

On 10 May 2022, the Investment Adviser acquired 300,644 Ordinary Shares in the market in relation to fees payable for the quarter ended 31 March 2022.

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.



## Investment Manager

Sanne Fund Management (Guernsey) Limited (formerly 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 2022: £370,779; with effect from 1 May 2021: £350,121; with effect from 1 May 2020: £344,269).

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

## Ordinary Shares held by related parties

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

Name	31 March 2022		31 March 2021	
	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	0.01%
Jon Bridel (held by a connected party)	30,000	0.00%	10,452	0.00%
Sandra Platts (in a family Retirement Annuity Trust Scheme)	27,953	0.00%	26,776	0.00%
Sarika Patel	5,000	0.00%	—	—
Tim Drayson	39,000	0.00%	—	—

On 25 April 2022, James Stewart's spouse acquired 10,000 Ordinary Shares in the Company.

As at 31 March 2022, the Investment Adviser held an aggregate of 3,089,021 Ordinary Shares (2021: 3,458,102 Ordinary Shares), which is 0.17% (2021: 0.20%) of the issued share capital.

As at 31 March 2022, the members of the Investment Adviser's founding team held an aggregate of 692,643 Ordinary Shares (2021: 692,643 Ordinary Shares), which is 0.04% (2021: 0.04%) of the issued share capital.

As at 31 March 2022, the Investment Manager held an aggregate of 50,000 Ordinary Shares (2021: 50,000 Ordinary Shares), which is 0.00% (2021: 0.00%) of the issued share capital.

## Directors' fees

The Directors, who are the key management personnel of the Company, receive fees for their services as Directors. During the year, the Directors received fees of £301,175 (2021: 264,750). As at 31 March 2022, there were no Directors' fees outstanding (2021: £nil). For details of the structuring of the Directors' remuneration, please refer to the Directors' remuneration report on pages 75 to 76.

## Other material contracts

### Administrator

With effect from 28 January 2015, Sanne Fund Services (Guernsey) Limited (formerly 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 2022: £331,178; with effect from 1 May 2021: £312,728; with effect from 1 May 2020: £307,500). 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.

# Notes to the Financial Statements continued

For the year ended 31 March 2022

## 10. RELATED PARTIES AND OTHER MATERIAL CONTRACTS CONTINUED

### Other material contracts continued

#### 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 2022, the Subsidiary Administrator is entitled to receive an annual fee from the Subsidiary of €85,001 (£71,592) (with effect from 1 January 2021: €60,074 per annum (£50,597)).

#### 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 2022 and outstanding at 31 March 2022 are as follows:

Year ended 31 March 2022	Charge for the year £	Amounts outstanding at 31 March 2022 £
Investment Adviser's fees	11,836,201	2,961,858
Administration fee	453,630	—
Investment Manager's fees	349,634	—
Directors' fees and expenses	305,202	—
Sub-administration fee <sup>1</sup>	96,791	49,013
Fees payable to the Custodian <sup>1</sup>	750,720	236,000
	<b>13,792,178</b>	<b>3,246,871</b>

Year ended 31 March 2021	Charge for the year £	Amounts outstanding at 31 March 2021 £
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>

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 2022, this facility had not been utilised.

### Loan collateral

With effect from 15 November 2021, security for an RCF of £325 million (previously £280 million) (see note 15) with a consortium of banks led by 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.

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; and
- (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 2022 Ordinary Shares Number	31 March 2021 Ordinary Shares Number
Share capital at the beginning of the year	1,763,120,710	1,654,671,448
Share capital issued and fully paid	5,118,288	108,449,262
<b>Total share capital at the end of the year</b>	<b>1,768,238,998</b>	<b>1,763,120,710</b>

Issued share capital Ordinary Shares	31 March 2022 Ordinary Shares £	31 March 2021 Ordinary Shares £
Share capital at the beginning of the year	1,831,856,145	1,719,065,509
Share capital issued and fully paid	5,534,386	114,157,400
Share issue costs	—	(1,366,764)
<b>Total share capital at the end of the year</b>	<b>1,837,390,531</b>	<b>1,831,856,145</b>

During the year, 802,196 Ordinary Shares have been issued to the Investment Adviser in relation to fees payable for the period from 1 April 2021 to 31 December 2021, at an average issue price of 109.46p per Ordinary Share (see note 10).

During the year, 4,316,092 (2021: 3,134,822) Ordinary Shares were issued in respect of scrip dividends totalling £4,656,286 (2021: £3,315,258).

## 13. BASIC AND DILUTED EARNINGS PER SHARE

	Year ended 31 March 2022	Year ended 31 March 2021
Profit for the financial year	£62,718,690	£209,957,804
Weighted average number of Ordinary Shares	1,765,918,903	1,664,130,350
<b>Basic and diluted earnings per Ordinary Share</b>	<b>3.55p</b>	<b>12.62p</b>

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 were no dilutive financial instruments in issue during the years ended 31 March 2022 or 31 March 2021.

# Notes to the Financial Statements continued

For the year ended 31 March 2022

## 14. TRADE AND OTHER RECEIVABLES

	31 March 2022 £	31 March 2021 £
VFN interest receivable	140,058,541	107,623,905
Other receivables	500,000	—
Prepaid finance costs	2,400,865	375,430
Other prepaid expenses	132,695	62,631
	<b>143,092,101</b>	<b>108,061,966</b>

The other receivable represents a deposit paid in respect of the Custodian's legal fees relating to the Company's investment in Bulb Energy.

## 15. LOAN PAYABLE

On 6 December 2017, the Company executed a 36-month £100 million multi-currency 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. In November 2021, the facility was refinanced and increased to £325 million for a further term of three years with a £75 million accordion facility. 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 imposes an interest cover test and 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. In accordance with the Company's investment policy, any borrowings undertaken by the Company will not exceed 20% of the value of the assets of the Company less its liabilities. 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 current or prior years.

	For the year ended 31 March 2022		
	GBP facility GBP	USD facility GBP	Total GBP
Balance brought forward	72,300,000	11,594,203	83,894,203
Drawdowns	6,000,000	30,023,268	36,023,268
Capitalised loan interest and fees	442,568	5,039	447,607
Foreign exchange revaluations	—	1,003,842	1,003,842
<b>Balance carried forward</b>	<b>78,742,568</b>	<b>42,626,352</b>	<b>121,368,920</b>

	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>

Interest on the loan is charged at a rate of SONIA (or equivalent) plus 2.0% per annum (2021: LIBOR (or EURIBOR for any loan denominated in Euro) plus 2.1% per annum). The facility is sustainability-linked, with margin premium or discount of up to 0.05% linked to the ESG score of the SEQI investment portfolio as verified by an independent limited assurance process, with effect from 1 July 2022. The sustainability feature of the RCF underlines the Company's commitment to its long-term sustainable investment initiative. Loan interest of £3,449,846 (2021: £3,358,494) and upfront, facility and break fees of £1,072,676 (2021: £736,092) have been recognised as expenses in the Statement of Comprehensive Income during the year.

	For the year ended 31 March 2022		
	GBP facility GBP	USD facility GBP	Total GBP
Balance brought forward	72,300,000	11,594,203	83,894,203
Drawdowns	6,000,000	30,023,268	36,023,268
Capitalised loan interest and fees	442,568	5,039	447,607
Foreign exchange revaluations	—	1,003,842	1,003,842
<b>Balance carried forward</b>	<b>78,742,568</b>	<b>42,626,352</b>	<b>121,368,920</b>

	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>

The carrying value of the loan is considered to be a reasonable approximation of its fair value.

## 16. TRADE AND OTHER PAYABLES

	31 March 2022 £	31 March 2021 £
Investment Advisory fee payable	2,961,858	2,831,830
Loan interest payable	521,452	199,116
Other payables	372,120	456,861
	<b>3,855,430</b>	<b>3,487,807</b>

## 17. COMMITMENTS

As at 31 March 2022, £66.3 million (2021: £62.7 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 RCF.

## 18. SUBSEQUENT EVENTS

On 21 April 2022, the Company declared an interim dividend of 1.5625p per Ordinary Share in respect of the quarter ended 31 March 2022. The dividend was paid on 27 May 2022.

On 10 May 2022, the Investment Adviser acquired 300,644 Ordinary Shares in the market in relation to fees payable for the quarter ended 31 March 2022.

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



# 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)

Sarika Patel  
(Independent non-executive Director, appointed 4 August 2021)

Tim Drayson  
(Independent non-executive Director, appointed 1 January 2022)

James Stewart  
(Independent non-executive Director, appointed 1 January 2022)

## REGISTERED OFFICE

Sarnia House  
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## INVESTMENT ADVISER

**Sequoia Investment Management Company Limited**

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## INDEPENDENT AUDITOR (WITH EFFECT FROM 7 DECEMBER 2021)

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## INDEPENDENT AUDITOR (UNTIL 7 DECEMBER 2021)

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## COMMUNICATIONS ADVISER

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London EC4Y 1AE

**DISCLOSURE OF DIRECTORSHIPS IN PUBLIC COMPANIES LISTED ON RECOGNISED STOCK EXCHANGES**

The Directors who held office during the year have held the following directorships in other public companies during the year:

Company name	Stock Exchange
<b>Robert Jennings, CBE</b>	
3i Infrastructure plc (resigned 16 July 2021)	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 (resigned 31 December 2021)	London Stock Exchange – Main Market
Marble Point Loan Financing Limited	London Stock Exchange – SFS
<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 (resigned 27 May 2022)	London Stock Exchange – Main Market
<b>Sarika Patel</b>	
abrdrn Equity Income Trust plc	London Stock Exchange – Main Market
Foresight Sustainable Forestry Company plc (appointed 26 October 2021)	London Stock Exchange – Main Market
SDCL Energy Efficiency Income Trust plc (appointed 1 January 2022)	London Stock Exchange – Main Market
<b>Jan Pethick</b>	None
<b>James Stewart</b>	None
<b>Tim Drayson</b>	None

# 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 2022		
	Total NAV return	Total share price return
Opening NAV/share price per share	<b>103.18p</b>	<b>104.20p</b>
Closing NAV/share price per share (a)	<b>100.50p</b>	<b>102.80p</b>
Dividends paid (b)	<b>6.25p</b>	<b>6.25p</b>
Weighted average NAV/share price per share on month end ex-dividend (c)	<b>100.47p</b>	<b>105.64p</b>
Dividend adjustment factor (d = b / c +1) (d)	<b>1.0622</b>	<b>1.0592</b>
Adjusted closing NAV/share price per share (e = a x d) (e)	<b>106.75p</b>	<b>108.88p</b>
<b>Total NAV/share price return</b>	<b>3.5%</b>	<b>4.5%</b>

## 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 financial year 2022 the dividend cash cover calculation is as follows:

Item	Amount (£m)
Cash interest received	112.02
Consent fees received in cash	1.19
Prepayment fees	4.47
Upfront fees/discounts amortised	15.43
Cash expenses	(21.04)
<b>Net cash income</b>	<b>112.07</b>
Dividend paid	105.68
<b>Dividend cash cover</b>	<b>1.06x</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 2022			Year ended 31 March 2021		
	The Company £	The Subsidiary £	Total £	The Company £	The Subsidiary £	Total £
Total expenses	20,725,720	903,240	21,628,960	18,475,469	904,324	19,379,793
Non-recurring expenses	(5,977,811)	—	(5,977,812)	(4,826,872)	—	(4,826,872)
Total ongoing expenses	14,747,909	903,240	15,651,149	13,648,597	904,324	14,552,921
Average NAV			1,795,666,866			1,663,645,419
Ongoing charges ratio (using AIC methodology)			0.87%			0.87%

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Matt Falla  
Katrina Rowe

## **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.

LEI: 2138006OW12FQHJ6PX91





Designed and produced by

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

Printed on Indigo Arcoprint, an FSC® certified mixed sources paper. Printed by DG3 Leycol, an FSC® and ISO 140001 accredited company.



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# Sequoia Economic Infrastructure Income Fund Limited Annual Report and Accounts 2022