

2020

ANNUAL REPORT AND ACCOUNTS



Diversified
Sustainable
Growth



**SEQUOIA
ECONOMIC
INFRASTRUCTURE**
INCOME FUND LIMITED

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.

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Overview

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.

Portfolio summary (as at 31 March 2020)

| | | | |
|---------------------------|--|------------------------------------|-------------------------------|
| 72 Investments | £56.5 _m Largest investment | £21.3 _m Average size | 6.6 years Average maturity |
| 5.3 years Average life | 1.5 Portfolio mod. duration | 35% Average equity cushion | 11.7% Construction risk |

Quote from the Chairman

“ SEQI made good progress throughout most of our last financial year. At the start of it we announced an increased target dividend of 6.25p per share, which we have gone on to fulfil, and through the year we undertook three successful and beneficial capital raises, each of which was significantly oversubscribed.

The turbulent conditions of global financial markets in March 2020 led to a notable reduction in the value of our assets at year end. However, the combination of our strong balance sheet and the generally predictable and stable cash flows from our widely-diversified debt portfolio have allowed us to reaffirm our target dividend at 6.25p per share for 2020/21.

The relative stability of economic infrastructure debt and our Investment Adviser's specialist expertise make SEQI well placed to deliver attractive risk-adjusted returns to Shareholders and to take advantage of the substantial long-term investment opportunities in the space. ”

Robert Jennings Chairman of the Company

Highlights

2020 FINAL RESULTS

Continued portfolio growth and performance – increased dividend target

SEQL, the specialist investor in economic infrastructure debt, announces its results for the year ended 31 March 2020.

Highlights for the year ended 31 March 2020

- Dividends totalling 6.1875p per ordinary share paid during the year following increase in annual target dividend from 6.00p to 6.25p per ordinary share announced in May 2019
- Diversified portfolio of 72 investments across 8 sectors, 29 sub-sectors and 13 mature jurisdictions
 - 93% of investments in private debt
 - 70% floating rate investments, capturing short-term rate rises
 - Short weighted average life of 5.3 years creating reinvestment opportunities
 - Weighted average equity cushion of 35%
- In line with the Company's commitment to implementing an ESG policy, the Investment Adviser signed up to the United Nations Principles for Responsible Investment ("UNPRI")
- Annualised portfolio yield-to-maturity of 12.0% as at 31 March 2020¹
- Ongoing charges ratio of 0.96%, down from 1.02% in the prior year (calculated in accordance with AIC guidance)¹
- Three capital raises completed during the year, all of which were significantly over-subscribed:
 - June 2019 – gross proceeds of £216 million
 - September 2019 – gross proceeds of £139 million
 - March 2020 – gross proceeds of £300 million

Post-year-end

- Comprehensive portfolio and balance sheet review undertaken in light of exceptional market volatility and spread widening arising from the COVID-19 pandemic and oil price collapse
- Assessment of cash yields and reaffirmation of dividend cover and target for the financial year ending 31 March 2021
- Restriction on certain new investments and preservation of balance sheet capacity to take advantage of difficult market conditions and opportunities to invest in new loans on attractive and accretive terms
- Redirection of the Investment Adviser's resources from origination to enhanced credit and portfolio monitoring

Financial highlights

| | 31 March 2020 | 31 March 2019 |
|--|-----------------------|----------------|
| Total net assets | £1,599,865,271 | £1,097,139,421 |
| Net Asset Value ("NAV") per ordinary share ^{1*} | 96.69p | 103.41p |
| Ordinary share price* | 94.00p | 113.00p |
| Ordinary share (discount)/premium to NAV ¹ | (2.8)% | 9.3% |

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

* Cum dividend

Company summary



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 subsidiary Sequoia IDF Asset Holdings S.A. (the “Subsidiary”, together the “Fund”). The Company controls the Subsidiary through a holding of 100% of its shares.

Investment objective



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

Investment policy



The Company’s principal investment policy is to invest in a portfolio of loans, notes and bonds where all or substantially all of the associated underlying revenues are from business activities in the following market sectors: transport, transportation equipment, utilities, power, renewable energy, accommodation and telecommunications infrastructure. The revenues should derive from certain eligible jurisdictions, as defined in the Company’s Prospectus. In addition, in excess of 50% of the portfolio should be floating rate or inflation-linked debt, and not more than 5% by value of the Fund’s investments (at the time of investment) should relate to any one individual infrastructure asset.

Environmental, Social and Governance (“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) for the foreseeable future. The Company pays dividends on a quarterly basis.

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

Chairman's statement



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 2020.

Unsurprisingly, the current focus is rightly on COVID-19 and our actions to protect our investments and our stakeholders. We discuss that in detail below, but first I want to report on the progress achieved in the past year.

NAV AND SHARE PRICE PERFORMANCE

Over the first eleven months of the financial year, the Company's NAV per share increased from 103.41p to 106.36p, after paying dividends of 6.1875p, producing a NAV total return of 9.0%², which was in excess of the Company's target return. However, during the month of March, the COVID-19 pandemic induced a sharp downturn in the financial markets generally, including the sub-investment grade credit markets such as high yield bonds and leveraged loans. The markets are used by the Company's independent valuation agents as pricing benchmarks for private debt and, primarily as a result of that, the Company's NAV per share² fell materially in March 2020, by 9.67p.

The overall outcome for the year, therefore, was that the NAV per share decreased from 103.41p to 96.69p, resulting in a NAV total return of -0.9%², once dividends are taken into account.

Prior to the ongoing pandemic, the Company's shares had consistently traded at a premium to NAV, averaging 8.5% over the last year, but fell to a discount of 2.8% to NAV² on 31 March 2020. However, after year end the share price partly recovered, and shares were again trading at a premium by the end of April 2020.

PORTFOLIO PERFORMANCE

For the six months prior to the current crisis, the Investment Adviser had been steadily rebalancing the portfolio in favour of more defensive sectors, such as telecommunications, utilities and renewables power, bringing the percentage of the portfolio in defensive sectors from 43% in September 2019 to 47% in March 2020. The Investment Adviser was also

favouring higher credit-quality transactions, and taking much less construction risk than before, with those assets falling from 15.7% to 11.7% of the portfolio over the year. This caution helped to mitigate some of the consequences of COVID-19. Consequently, and also because infrastructure debt is one of the least volatile types of lending, the Company outperformed the liquid credit markets during March 2020 – for example, the Credit Suisse Leveraged Loan Index fell by 21% over the month, approximately twice as much as the decline in our asset values.

It is important to note that 79% of the decline in our asset values during March 2020 was caused simply by yields increasing in the benchmarks (such as leveraged loans) used for pricing purposes. The Company's independent valuers determined that the yield on our portfolio of loans needed to increase to reflect what was happening in the wider markets, and this was achieved by reducing the carrying value of our investments from an average of 97.6% of par at the end of February 2020 to 88.9% at the end of March 2020. Consequently, the cash yield on our portfolio rose from 6.9% to 7.5% and its yield to maturity rose from 8.3% to 12.0% over the same period. These pricing adjustments do not affect the Company's revenue prospects or its ability to pay a dividend. Moreover, they are expected to be temporary in nature, in that the price of our loans will gradually accrete up to par as they get closer to maturity, or if yields on the pricing benchmarks decline. An alternative way of thinking about this is that the Company's portfolio is now much higher yielding than before, and this should in itself lead to stronger NAV growth over time.

The remaining 21% of the decline in our asset values was caused by the underperformance of three investments. This was mostly a result of the brutal fall in the price of oil during March 2020. These investments are discussed in more detail in the Investment Adviser's report, but investors should note the outlook for two of the three investments improved materially in the two months following year end.

² See appendix for Alternative Performance Measures ("APMs")



RESPONSE TO COVID-19

We were fortunate that we entered the current crisis with a robust balance sheet, primarily due to our most recent £300 million capital raise, which closed on 3 March 2020. The proceeds of the capital raise enabled us to repay the majority of borrowings under our RCF, after funding new loans in settlement.

The magnitude of the shock to global financial markets in mid-March 2020 prompted the Board and Investment Adviser to agree a two-week moratorium on all new loan commitments, to allow for a more comprehensive review to take place. At the end of March 2020, the Board, with support from our consultants Kate Thurman and Tim Drayson, our Investment Adviser, Investment Manager, Broker and other service providers, jointly considered the findings from the review in a series of virtual meetings and concluded as follows:

- We should aim to deploy funds in new loans at a more measured pace, focusing on stronger credits within our investment universe;
- We should allocate greater resources to the monitoring of all loans in our portfolio and should be willing to enter into dialogue with distressed borrowers at an early stage should circumstances warrant such an approach;
- We should retain our dividend target of 6.25p per annum for 2020/21 in the expectation that this should be fully covered (net of expenses and interest costs) by the cash yield on our portfolio;
- Our scenario planning indicated that we should have no difficulty in repaying drawings on our RCF in December 2021 given the contractual receipts of interest and principal over the relevant period. For the years ending 31 March 2021 and 31 March 2022, these are expected to give rise to, respectively, approximately £68 million and £300 million of free cash after paying all operating costs, interest on borrowings and our target dividend;
- We should retain capacity to fund opportunistic secondary market activity if attractively priced opportunities emerge; and
- We should also retain some capacity to support our share price should it slip to and remain at a significant discount to NAV for a protracted period.

The operational response by all of the Company's critical service providers has been similarly swift and so, on behalf of the Company, I would like to thank each of them and their staff for the excellent efforts they have made to adapt to remote working in the difficult circumstances that the UK and Channel Islands have faced. It is a tribute to everyone that the contingency plans that had been made for such an eventuality have worked almost faultlessly.

While we are proud of the way the team has come together in response to this crisis, we recognise that the decline in NAV and our share price is disappointing for shareholders. It may provide shareholders some reassurance to know that, following the mark-down of NAV at year end, in the subsequent two months the Portfolio has been strong and we believe the Company is well-placed to enjoy further NAV growth.

It is still early days, but we take encouragement from the way that both our Portfolio and our team have performed over the last three months. Debt markets have been aided by the actions taken by Central Banks to provide liquidity, but we remain alert to the possibility that solvency issues may become more pressing as the robust steps taken to support businesses during the early period of difficulty start to run off, potentially causing spreads to widen again. We expect that the prudent measures that we have implemented will help to mitigate the impact on the Company of more generalised solvency problems across the economies in which we operate, while simultaneously positioning the Company to benefit from more stable economic circumstances that would be conducive to improved Shareholder returns over the long term.

ESG 2020

The issue of climate change and carbonisation of the atmosphere is one which has become a greater concern even over the relatively short period since our IPO. It naturally affects our credit assessment processes but, more importantly, it also changes the way we believe our capital should be deployed. Accordingly, at the beginning of 2019, our Investment Adviser signed up to the UNPRI and has been implementing a comprehensive ESG programme ("ESG 2020") across the existing portfolio and all new investments.

Chairman's statement

Continued

In general, our investment portfolio has strong environmental credentials, with a meaningful allocation to renewable energy and related sectors such as electricity grid stabilisation and even highly specialised ships needed for the maintenance of offshore windfarms. I am pleased to report that the Investment Adviser has achieved all of the goals set by the Company in relation to the adoption and implementation of a comprehensive ESG programme, including a retroactive scoring of the current portfolio and regular ESG reporting to the Board. The Company's ESG 2020 programme is described more fully in the Investment Adviser's report. Importantly, this includes adding four positions to a 'run-off portfolio', consisting of legacy investments that have low ESG scores. As at the date of this report, one of these loans has already been sold; the others will also be sold, if an acceptable price can be secured; if not, the Company will not participate in their refinancing.

CLOSING

I would like to close this year's letter by thanking my fellow Board members, the Investment Adviser, Investment Manager, our Brokers, our Independent Advisers, and all other critical service providers that have adapted extremely well to an unprecedented period of disruption. I am also pleased with the way the team has grown together over the last five years, which gives the Board confidence that the Company will, over the long-term, continue to deliver an attractive risk-adjusted return with a relatively low correlation to the broader financial markets.

Thank you for your commitment and support.

Robert Jennings

Chairman

24 June 2020

Investment Adviser's report

THE INVESTMENT ADVISER'S OBJECTIVES FOR THE YEAR

Over the course of the financial year ended 31 March 2020, Sequoia Investment Management Company Limited ("Sequoia") has had a number of objectives for the Company:

SEQUOIA
INVESTMENT
MANAGEMENT
COMPANY

| Goal | Commentary | |
|---|--|---|
| Gross portfolio return of 8-9% | The Company is fully invested with a portfolio that yields in excess of 8% | ✓ |
| Growth in late cycle strategies | 47% of the portfolio is in defensive sectors ³ as at 31 March 2020 | ✓ |
| Capital growth to deliver economies of scale and broader benefits | Gross proceeds of £654.8 million raised during the year across three over-subscribed capital raises | ✓ |
| Timely and transparent investor reporting | Factsheet, commentary, and the full portfolio are provided monthly for full transparency | ✓ |
| Dividends of 6.25p per share | We have delivered on our increased dividend target with the declaration of a fourth dividend of 1.5625p for the quarter ended 31 March 2020, which was paid to Shareholders on 22 May 2020 | ✓ |

CAPITAL RAISED AND SHARE PERFORMANCE

The Company completed three capital raises during the financial year ended 31 March 2020, all of which were very significantly oversubscribed. Two partially pre-emptive offerings were completed in June 2019 and February 2020, which raised gross proceeds of £216 million and £300 million, respectively. A non-pre-emptive placing of ordinary shares in September 2019 raised gross proceeds of £138.75 million. In each case, the proceeds were used to repay existing debt and acquire assets from the attractive pipeline of investments, thereby mitigating cash drag as evidenced in the chart below.

As at 31 March 2020, the Company had 1,654,671,448 ordinary shares in issue. The closing share price on that day was 94.0p per share, implying a market capitalisation for the Company of approximately £1.6 billion, compared to £1.2 billion a year previously. At the date of signing of these Financial Statements, the share price had recovered to 105.0p.

NAV PERFORMANCE

Over the financial year, the Company's NAV decreased from 103.41p per share to 96.69p per share, driven by the following factors:

Capital raising and deployment since IPO



| Factor | NAV effect |
|--|----------------|
| Interest income on the Company's investments | 9.71p |
| Losses on foreign exchange movements, net of the effect of hedging | (0.67)p |
| Negative market movements | (9.17)p |
| IFRS adjustment from mid-price at acquisition to bid price | (0.59)p |
| Operating costs | (1.45)p |
| Gains from issuing Shares at a premium to NAV | 1.64p |
| Gross decrease in NAV | (0.53)p |
| Less: Dividends paid | (6.19)p |
| Net decrease in NAV after payments of dividends | (6.72)p |

The year-end portfolio valuation was performed by PwC, who has been the Company's independent Valuation Agent since April 2017. PwC's role as valuation agent is to review the discount rates of the private debt investments and to consider the credit quality and sector of each, and then

³ Accommodation, TMT, utilities, and renewables

Investment Adviser's report

Continued

benchmark each one to appropriate public investments or indices where applicable. The goal of this process is to determine the fair value of the Company's assets on a monthly basis, however the Company does not apply the IFRS 9 expected credit losses model to its portfolio as, under IFRS 9, this requirement applies only to financial assets measured at amortised cost and not to assets valued at fair value.

March 2020 specifically saw a decline of 11.0p in asset valuations, of which 79% was attributable to COVID-19-related spread widening and the assumption of a higher discount rate to calculate mark to market adjustments to valuations. This is important to note because any subsequent reduction of the discount rate will serve to increase the mark to market NAV and will over time additionally result in a greater pull-to-par effect.

Although the general widening of spreads reduced the Company's NAV as at 31 March 2020, it does not in itself affect the Company's expectations at this time for receipt of interest and principal payments.

In addition, the underlying performance of three of the Company's investments has been adversely affected to varying degrees by COVID-19 and the steep decline in the price of oil, which accounts for a 1.54 pence reduction in the NAV per share when marked to market. Updates on these investments are included later on in this report.

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

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

Economic infrastructure debt is a stable asset class typically characterised by high barriers-to-entry and relatively stable cash flows and includes sectors such as Transportation, Utilities, Power, Telecommunications and Renewables. Economic infrastructure is often supported by physical assets, long-term concessions or licenses to operate infrastructure assets and these companies frequently operate within a regulated framework. This is especially true in the cases of the Utilities, Telecommunications and parts of the Power sectors.

A characteristic common to economic infrastructure sectors is that they earn their revenues from demand, usage or volume. This means that the project's revenues are linked to its utilisation, 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.

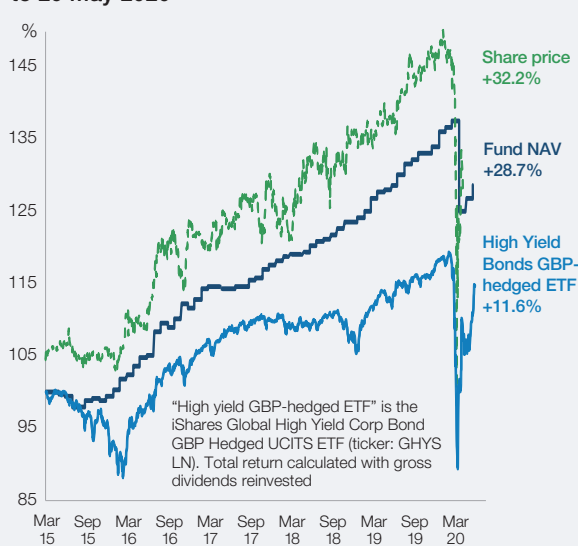
These characteristics of economic infrastructure – stable cash flows, high barriers-to-entry, physical assets, equity buffers and lower gearing – all form the bedrock upon which the Company's investment opportunities are based and analysed. This is not expected to change, regardless of what is going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

With that said, economic infrastructure debt is not immune to market volatility and there are certain actions we have taken, some of which were well before the COVID-19 crisis. These actions have helped position the portfolio defensively for a potential downturn, which we have discussed with many of you over the last year.

THE MARKET ENVIRONMENT DURING THE YEAR

The Company operated in a largely benign environment in the first eleven months of the year, during which time the NAV per share grew by 3.25p after servicing the target dividend. However in the last month of the Company's financial year, the liquid credit markets especially experienced a historic widening of lending margins and bond spreads in response to two extraordinary market forces: the coronavirus pandemic and an oil supply glut resulting from tensions between the US, Russia, and Saudi Arabia.

Total return since the inception of the Company to 29 May 2020⁴



⁴ See appendix for Alternative Performance Measures ("APMs")



When compared to debt indices during the March COVID-19-related sell-off, the fall in the Company's NAV compares relatively favourably to non-infrastructure asset classes. For example, the Credit Suisse Leveraged Loan Index fell approximately 21% on a price basis in March 2020 yet has since rebounded by nearly one-third of that amount as global volatility waned since the middle of March 2020.

DIVERSIFIED AND CASH-GENERATIVE PORTFOLIO

The Company took advantage of the favourable market conditions in 2019 to begin employing sensible late-cycle strategies. 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. We put these into place over a year ago because we expected a slowdown in the economy, as the business cycles in the US and the UK reached their 10th year in the second half of 2019. It is important to note that we did not chase yield as spreads tightened over the last few years. We did not need to do this to maintain yield as infrastructure debt remains an underinvested and uncrowded space.

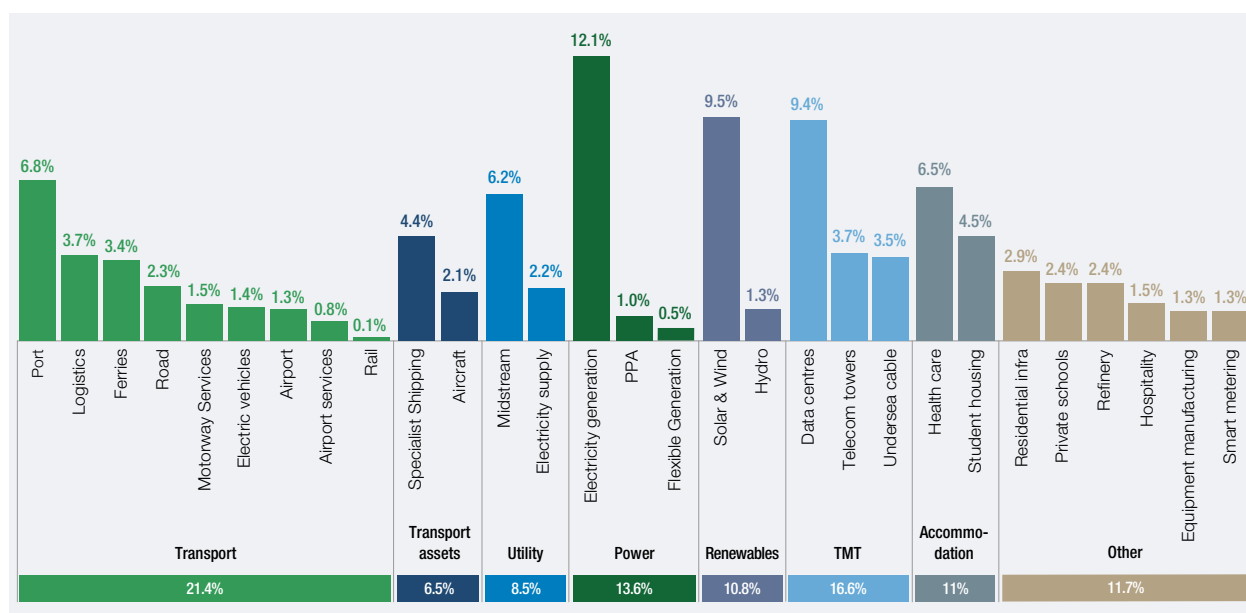
- We have 47% of the portfolio in defensive sectors. These include Telecommunications, Accommodation, Utilities, and Renewables which are viewed as defensive because they provide essential services, often operate within a regulated framework and have high barriers-to-entry.
- Our Accommodation sector, which stands at 11%, is less exposed to COVID-19 than one may expect, because we have no exposure to the higher risk sub-sectors within Accommodation such as old age care and acute hospitals.

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

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. The chart below shows portfolio sectors and sub-sectors on 31 March 2020.

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

The Company focuses predominantly on private debt, which on 31 March 2020 represented approximately 93% of its portfolio (compared to 85% a year previously). 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



Investment Adviser's report

Continued

DIVERSIFIED AND CASH-GENERATIVE PORTFOLIO CONTINUED

1%-3% 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 a high 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 cover potential calls on its FX hedges in the event of an FX shock.

The portfolio's regular cash generation is another source of liquidity to meet liabilities and reinvest in attractive economic infrastructure debt opportunities. We estimate that the portfolio will, over the next twelve months and twenty-four months respectively, generate approximately £68 million (c. 4% of NAV) and £300 million (c. 19% of NAV) of free cash based on expected interest income and contractual repayments (excluding prepayments), after payment of its operating expenses, interest on borrowings and our target dividend to Shareholders. The portfolio's strong cash generation arises from not only the investments' regular, contractual and therefore predictable interest payments, but also as a result of the portfolio's short duration, which means that many of the loans in our portfolio mature over a short time frame. This affords us considerable comfort that we would have sufficient cash flow to meet our obligations to our advisers, banks and Shareholders, even if credit markets were to deteriorate and to turn illiquid for an extended period of time. Our status as a closed-ended fund further protects us against unexpected redemption pressure that from time to time afflicts other structures.

CREDIT MONITORING

Across the range of sectors in which we invest, the outlook for some is largely unaffected, though the situation remains fluid and dependent on the length and severity of the economic impact of continued COVID-19 lockdowns. These sectors include renewables, data centres, mobile phone cell towers, smart metering, specialised health care, US power, specialist shipping and residential infrastructure. Some investments in other sectors, such as transportation, transportation assets, and midstream oil & gas, however, have greater exposure to COVID-19 and low oil prices and will require close monitoring and communication with the borrowers. Three investments within these sectors have been identified as assets that will require enhanced monitoring going forward. The effects of COVID-19 and low oil prices on these three investments are described in more detail below:

1. US midstream

An investment in the senior and holdco subordinated loans of a US midstream oil and gas business, based in the

Permian basin. The business also has relatively strong ESG credentials by capturing gas that would normally be burned in the atmosphere as well as providing safe disposal of contaminated water. The loans are equal to 2.8% of the Company's gross asset value and approximately 81% of the Company's exposure to this borrower is through senior secured loans. This business is still in its ramp-up phase and capital expenditure overruns and the fall in the oil price have left it with short-term liquidity concerns. The Investment Adviser, together with the other lenders to the business, have appointed third-party consultants to advise on a range of scenarios which could include a restructuring of the business. As a result, the value of this loan has been marked down significantly.

2. Swedish refinery

A loan backed by a Swedish business that owns two oil refineries, as well as some downstream assets, and which has made considerable progress towards achieving EU targets for renewable contents in transportation fuels by 2030. This loan is equal to 2.3% of the Company's gross asset value. The business suffered a liquidity shock when the decline in the price of oil reduced the amount of inventory financing it could draw, coupled with margin calls on its commodity hedging book. However, post-year-end events have materially improved its situation and the Investment Adviser expects that the loan will continue to be serviced.

3. German CHP Plant and logistics business

A loan backed by a German Combined Heat and Power plant that provides heat (in the form of steam) to industrial companies in the automotive components sector, as well as selling electricity to the grid. This loan is approximately 1.5% of the Company's gross asset value. Due to the COVID-19 pandemic the German automotive industry has almost completely shut down and the key users of power from the plant are operating at minimum utilisation rates. The Investment Adviser is closely following the situation and maintains frequent contact with management and shareholders. It is possible that the key off-takers will be eligible for German government support, and in addition, the German government is considering a car scrappage scheme, which will be positive for the automotive sector.

ORIGINATION ACTIVITIES

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

CASE STUDY:

Care4U – €40.0 million



133

The Group has a capacity of approximately 133 beds



33

The Group has 33 properties across the Republic of Ireland



Care4U provides residential and day services for adults with an intellectual disability, autism, acquired brain injury and mental health difficulties in the Republic of Ireland.

The group has a capacity of approximately 133 beds across 33 properties, and all revenues are received via service user referrals from the Health Service Executive ("HSE"). HSE is responsible for the provision of health and personal social services for everyone living in the Republic of Ireland, with public funds.

The sponsor has considerable experience in the specialised care industry and participates in investments with a long-term view. The loan is senior secured, and the deal is structured like a project finance transaction with a specific operational special purpose vehicle ("SPV"). There are a number of financial and operational covenants, including leverage and debt service coverage ratios, as well as a cash sweep mechanism to be applied to debt repayment provided there is excess cash after the payment of expenses and mandatory service.

Investment Adviser's report

Continued

ORIGINATION ACTIVITIES CONTINUED

Primary market origination

The primary loan markets are the predominant source of investment opportunities 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 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 79% of the portfolio comprising primary investments as at 31 March 2020.

Secondary market origination

Some of the Company's investments continue to be acquired from banks or other lenders in the secondary markets. This enables a relatively rapid deployment of capital, since primary market transactions in infrastructure debt can often take a considerable time to execute. In addition, secondary market loans have performance history that permits credit analysis on actual results rather than financial forecasts. Research⁵ 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.

In the current environment, there is the possibility that a number of high quality economic infrastructure investments will appear on the secondary market at attractive prices. As the Company slowly ramps up deployment of its cash as the market improves, these opportunities could be a significant source of alpha for the Company without sacrificing credit quality.

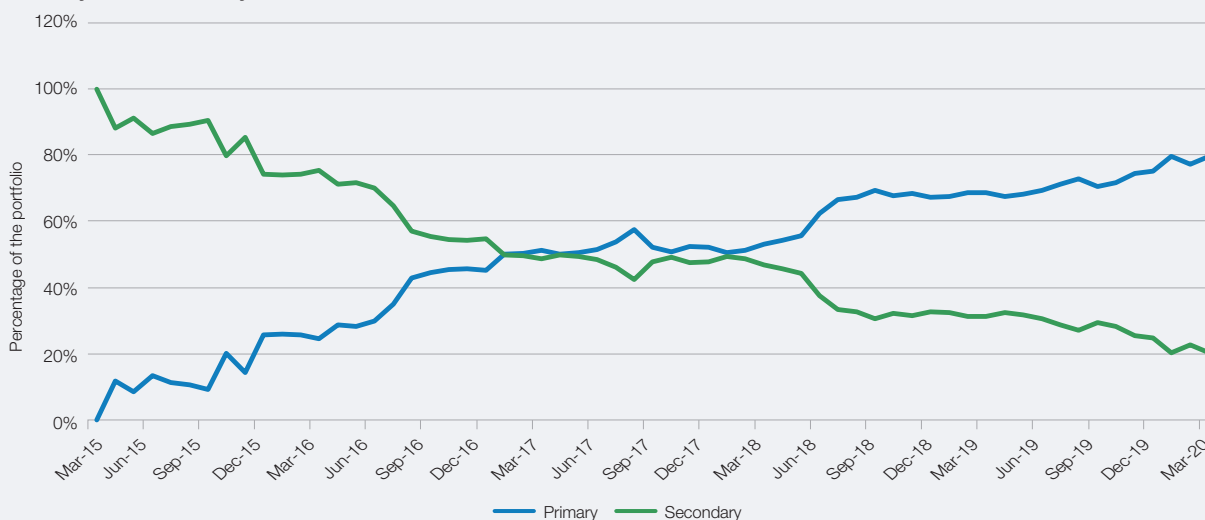
STRENGTHENING THE TEAM AT SEQUOIA INVESTMENT MANAGEMENT COMPANY

As the Company embarks on its sixth year of operations, a number of initiatives have been taken by the Investment Adviser to ensure there are ample resources to devote to all monitoring and new origination activities.

During 2019, the Investment Adviser has recognised the need for a senior employee with deep infrastructure experience to lead Sequoia's risk functions. As a result, Sequoia has appointed Anurag Gupta as Chief Risk Officer; he comes from KPMG, where he was a Partner and Global Sector Head of Power in their global infrastructure advisory practice. The depth of Anurag's strong infrastructure experience is a valuable asset to Sequoia as the risks of new and existing investments are evaluated and monitored.

To support the enhanced monitoring during the ongoing COVID-19 pandemic as well as the deployment of capital into the Company's pipeline of investments, the Investment Adviser has recently hired one new analyst and is currently interviewing for a further new analyst position. These analysts will augment the support available for the Vice-Presidents and Associates as they continue to enhance the review of all existing investments as well as exploring new opportunities. A former 2019 intern will also join as a full-time analyst this summer. The total headcount with these three additional analysts will be eighteen, of which seventeen are investment professionals.

Primary and secondary investments



⁵ 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



STRONG PIPELINE OF OPPORTUNITIES

Sequoia continues to monitor the global effects of the COVID-19 pandemic as well as the primary and secondary effects of historically low oil prices. As the world slowly emerges from lockdown, Sequoia believes the Company is particularly well-positioned to continue deploying capital into its strong pipeline of mostly private debt infrastructure lending opportunities. Attractive secondary market opportunities will also be targeted if the pricing is consistent with the Company generating a gross return in excess of 8% per annum. If the market continues to stay soft, this could potentially be an opportunity to improve the average credit quality of the portfolio without sacrificing yield.

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

FUND PERFORMANCE

| | | 31 March 2020 | 30 September 2019 | 31 March 2019 |
|---------------------------|--|----------------|-------------------|---------------|
| Net asset value | <i>per Ordinary Share</i> | 96.69p | 105.30p | 103.41p |
| | <i>£ million</i> | 1,599.9 | 1,459.9 | 1,097.1 |
| Invested portfolio | <i>percentage of net asset value</i> | 95.8% | 99.3% | 103.8% |
| Total portfolio | <i>including investments in settlement</i> | 101.2% | 108.7% | 112.9% |

PORTFOLIO CHARACTERISTICS

| | | 31 March 2020 | 30 September 2019 | 31 March 2019 |
|---------------------------|--------------------------------------|---------------|-------------------|---------------|
| Number of investments | | 72 | 78 | 69 |
| Single largest investment | <i>£ million</i> | 56.5 | 60.4 | 56.4 |
| | <i>percentage of NAV</i> | 3.5% | 4.1% | 5.1% |
| Average investment size | <i>£ million</i> | 21.3 | 18.6 | 16.5 |
| Sectors | <i>by number of invested assets</i> | 8 | 8 | 8 |
| Sub-sectors | | 29 | 30 | 26 |
| Jurisdictions | | 13 | 13 | 13 |
| Private debt | <i>percentage of invested assets</i> | 93.1% | 88.4% | 85.1% |
| Senior debt | | 55.0% | 62.0% | 64.3% |
| Floating rate | | 69.7% | 72.0% | 69.4% |
| Construction risk | | 11.7% | 15.7% | 16.2% |
| Weighted-average maturity | <i>years</i> | 6.6 | 5.7 | 5.8 |
| Weighted-average life | | 5.3 | 4.2 | 4.4 |
| Yield-to-maturity | | 12.0% | 8.2% | 8.6% |
| Modified duration | | 1.5 | 1.2 | 1.3 |

Investment Adviser's report

Continued

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

Sequoia Investment Management Company Limited

Investment Adviser

24 June 2020

SEQUOIA INVESTMENT MANAGEMENT COMPANY

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

28 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

19 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

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

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

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

Commercial lending to shipping, construction and project finance sectors.

Greg Taylor Director and Co-Head of Infrastructure Debt

More than 30 years of infrastructure experience.

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

Developed Moody's methodology for rating regulated infrastructure companies.

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

Anurag Gupta Chief Risk Officer

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).

ESG 2020 – Summary

The Company has begun a comprehensive programme of establishing and incorporating broad ESG considerations into its approach to investment.






The Board and the Investment Adviser take their corporate and social responsibilities seriously. The Company already has strong ESG credentials. For example, it is invested in a number of renewable energy assets, such as solar panels and wind turbines, as well as specialist vessels used in the maintenance of offshore wind turbines. It is also invested in assets necessary for the transition to a lower-carbon world such as natural gas pipelines in the United States, which are needed to reduce the amount of coal-fired electricity generation. Other investments have societal benefits such as the provision of healthcare or education.

The Board and Investment Adviser have therefore established a number of appropriate policies to demonstrate to shareholders how the Company takes into account the risks associated with climate change when deploying its capital. The Board as a whole, led by the Chairman, is responsible for overseeing the development and implementation of the Company's sustainability strategy.

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.

From these high-level principles we have derived the following set of internal guidelines that require consideration in respect of each of our loans or prospective loans. In summary, the Investment Adviser has incorporated these principles into all stages of its investment process:

- The origination of new investments will include enhanced negative and positive screening.
- Due diligence and credit analysis will include assessing thoroughly the potential impact of climate change, enhanced environmental impact and technical assessments, the borrower's social and governance framework, and ESG questionnaires.
- Loan documentation can include, where appropriate, ESG considerations. For example, these could include enhanced reporting by borrowers in relation to their environmental impact.
- The Company's reporting to its shareholders will be expanded to cover ESG. In particular, it will take account of the recommendations of the Task Force on Climate-related Disclosures ("TFCD"), including those recommendations specific to the banking sector, and the Company aims to provide best-in-class disclosure.

| GUIDELINES | | CONSIDERATIONS |
|---|---|--|
|  | Alignment with community goals | <ul style="list-style-type: none"> • Health and safety of residents: pollution and noise • Historical and cultural elements preservation and project's visual impact |
|  | Commitment to sustainability goals | <ul style="list-style-type: none"> • Counterparties' commitment to sustainability, including an adequate maintenance plan • Other indicators of commitment to sustainability |
|  | Efficient use of resources | <ul style="list-style-type: none"> • Materials recycling, reduction of energy and water consumption and limitation on use of landfills • Alternative water sources usage and consumption of renewable energy |
|  | Reduced environmental footprint | <ul style="list-style-type: none"> • Emissions of greenhouse gasses and air pollutants • Usage of environmentally friendly and biodegradable materials • Use of farmland and natural buffer zones |
|  | Sustainable economic development | <ul style="list-style-type: none"> • Job creation and workforce skills development • Support of local social and business community |

ESG 2020 – Summary

Continued

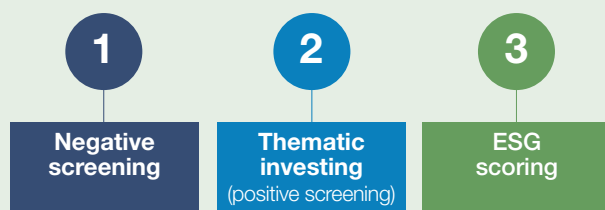
In parallel with this, the Investment Adviser has retrospectively reviewed the Company's existing portfolio and assessed whether it is currently holding investments which, had these policies been in place at the time, would not have been made. The Investment Adviser positively notes that there were minimal "red flag" investments in the portfolio at the time of review, and this is only expected to improve over time as the ESG policy is more firmly embedded within the investment process. Two "red flag" investments were sold as a result of this process, including a coal export terminal and a UK motorway services provider.

Based on its preliminary review, the Investment Adviser does not believe its ESG policies will materially change the investment portfolio's yield or diversification, given the portfolio's existing ESG credentials. There are currently no investments in oil & gas exploration and production investments, military infrastructure, tobacco, gambling or alcohol.

The Company therefore views its ESG 2020 initiative as building upon solid foundations and being an evolution rather than a revolution.

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.

Alcohol, gambling, pornography and tobacco are already excluded by SEQI's investment criteria.

2. Thematic investing

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 2020, thematic investing covers 55% of SEQI's investment portfolio, split 15% renewable energy, 20% enabling the transition to a lower carbon world and 20% infrastructure with social benefits. The remaining 45% of the portfolio comprises investments in the Transport, Transport Assets, Power, TMT and Other sectors and is mostly ESG-neutral.

The following table shows example anonymised investments in each theme:

| Renewable energy | Enabling the transition to a lower carbon world | Infrastructure with social benefits |
|-----------------------------|---|-------------------------------------|
| US renewables business | Spanish CCGT | US telecom towers |
| US hydro power | US midstream | UK specialist care |
| UK flexible generation | German toll road | UK student housing |
| Nordic offshore wind repair | German CCGT | Dutch student housing |
| US solar panel business | US midstream | Irish student housing |
| UK electricity supplier | US electricity generation | US education |
| Spanish solar portfolios | US pipelines | |
| | Nordic specialist shipping | |
| | US electric vehicles | |



SEI ESG Score Distribution – Current Portfolio

by amount (LHS) and by number (RHS)



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

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's new Chief Risk Officer, Anurag Gupta, has been working closely with the portfolio management team to design 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 with 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 ESG 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.

The chart above represents the Company's portfolio as at 31 March 2020. This is the result of the Investment Adviser's preliminary review over the past six months retrospectively scoring portfolio investments. It should serve as a baseline upon which the Investment Adviser aims to improve throughout the coming year. Over time, the Investment Adviser expects the distribution to shift significantly to the right as investments with weaker credentials repay, and capital is redeployed in investments with stronger ESG profiles. In order to accelerate this process, four of the Company's lowest-scoring investments have been added to a 'run-off portfolio'. These are a coal-export terminal, a hydrocarbons and chemicals import-export terminal, a petrol station business and an airport services company (which has been sold since year end). In aggregate, these positions represent 6.3% of the Company's NAV at year end. Being in the run-off portfolio means that the Investment Adviser will actively look to dispose of these loans and, if it is not possible to sell them at an attractive price, the Company will not participate in their refinancing.

Strategic report

PRINCIPAL RISKS AND UNCERTAINTIES

The Board 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 risks facing the Company, including those that would threaten the Company's business model, future performance, solvency or liquidity. The Board has appointed International Fund Management Limited ("IFML" or the "Investment Manager") as the Alternative Investment Fund Manager ("AIFM") to the Company. IFML is also responsible for providing risk management services compliant with that defined in the Alternative Investment Fund Managers Directive ("AIFMD") and as deemed appropriate by the Board.

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

Since their appointment on 30 January 2018, Tim Drayson and Kate Thurman, independent consultants to the Company, have provided guidance to the Board on the overall approach to risk management across the Company's portfolio. Part of their focus has been to assist the Investment Manager in scrutinising certain of the Investment Adviser's credit evaluations.

Anurag Gupta's appointment as Chief Risk Officer 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 risks associated with the Company are as follows:

Market risk

The value of the investments made and intended to be made by the Company will change from time to time according to a variety of factors. The performance of the underlying borrowers, expected and unexpected movements in interest rates, exchange rates, inflation, bond ratings and general market pricing of similar investments will all impact the Company and its Net Asset Value.

Credit risk

Borrowers of loans or issuers of 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.

Liquidity risk

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.

Counterparty risk

Counterparty risk can arise through the Company's exposure to particular counterparties for executing transactions and the risk that counterparties cannot meet their contractual obligations.

Leverage risk

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. The Board monitors the level of leverage on an ongoing basis as well as the credit ratings of any counterparties.

Compliance & regulatory risk

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. The Investment Adviser and the Administrator monitor compliance with regulatory requirements and the Administrator presents a report at quarterly Board meetings.

Operational risk

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.



Political and economic risk

The Risk Committee reviews risks as they relate to Brexit and the impact of Brexit on the above risks.

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, have presented a significant emerging risk to markets globally, and prompt action was taken by the Board and its key advisers in March 2020 to assess in full the potential impact to the Company from the resulting exceptional market volatility and widening of spreads. The impact of the pandemic is discussed further in the report of the Audit Committee.

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.

GOING CONCERN

The Company has been incorporated with an unlimited life. In accordance with the Company's Articles of Incorporation, the Directors were required to propose an ordinary resolution (the "Continuation Resolution") on or before 3 September 2016 that the Company continues as a registered closed-ended collective investment scheme, and to propose further Continuation Resolutions within every three years thereafter. The first Continuation Resolution was passed by Shareholders at an Extraordinary General Meeting of the Company on 25 May 2016, and the second on 16 August 2018 at the Company's Annual General Meeting ("AGM"). Should a Continuation Resolution not be passed, the Directors are required, within six months, to put forward proposals for the reconstruction or reorganisation of the

Company to the Shareholders for their approval. These proposals may or may not involve winding up the Company and, accordingly, failure to pass a Continuation Resolution will not necessarily result in the winding up of the Company.

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

The Directors have reviewed the Company's holdings in cash and cash equivalents and investments, including a consideration of the revaluation losses arising on certain investments as a result of the COVID-19 pandemic. 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. Moreover, the losses that were incurred at year end – which have already begun to reverse, and should continue to do so as the investments mature and their valuations accrete to par – were unrealised, and therefore have no direct effect on the solvency of the business. The risk of realised losses arising through loans defaulting is limited to a few specific investments, representing a small proportion of the Company's investment portfolio. The Directors also note that the reductions in the valuation of investments as a result of COVID-19 have had no impact on the interest income cash flow of the Company or its ability to pay its 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 effects of the COVID-19 pandemic, has a strong balance sheet and adequate financial resources to meet its liabilities as they fall due.

Strategic report

Continued

VIABILITY STATEMENT

The Directors have assessed the viability of the Company over a five-year period to May 2025, taking account of the Company's current position and the potential impact of the principal and emerging risks outlined in this statement, including risks associated with the current COVID-19 pandemic.

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

The Directors have determined that the five year period to May 2025 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 4 to 5 years. In making their assessment, the Directors have taken into account the Company's NAV, net income, cash flows, dividend cover, regulatory compliance, the anticipated short- to medium-term effects of COVID-19 and other key financial ratios over the period. 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; defaults of the two largest investments, representing approximately 7% of the Fund's portfolio, which would reduce the Company's annual interest income by c. 6.8%; deterioration in underlying credit ratings; and downgrading or illiquidity of loans. This analysis included stress-testing to simulate the combined effects of the recession of the early 2000s and the 2008 global financial crisis.

The viability model also includes projections for the continuing deployment of capital into new target investments amounting to approximately £478 million, whilst still supporting the Company's target dividend and meeting its financial targets.

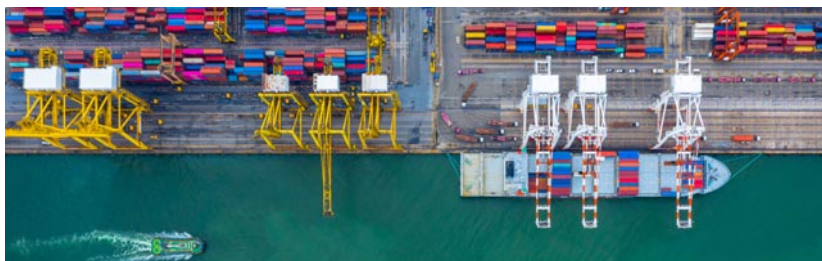
The Directors have also considered the possibility that a Continuation Resolution, to be proposed at the 2021 AGM, may not be passed by Shareholders. The Directors noted the overwhelming majority vote in favour of the Continuation Proposals passed in May 2016 and August 2018 and the strong appetite for the Company's investment proposition evidenced by the successful launch in March 2015, and a number of subsequent significantly 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 2025.

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 Sequoia Investment Management Company Limited (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. A summary of the terms, including fees and notice of termination period, is set out in note 10 to the Financial Statements.

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 2020, the long-term credit rating of the Custodian as reported by Standard and Poor's is AA- (2019: AA-), which is deemed to be an acceptable level.

In January 2020 representatives of the Company undertook a due diligence visit to the Custodian's offices in Ireland to meet a number of personnel and review the performance of the Custodian. Further details of the review are provided under the description of the work of the Management Engagement Committee.

Administrator

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

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

Board of Directors and independent consultants

The Directors of Sequoia Economic Infrastructure Income Fund Limited, 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; in 2001/02 during Railtrack's administration and again in 2007/08 in relation to Crossrail.

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



JAN PETHICK

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.



SANDRA PLATTS (SENIOR INDEPENDENT DIRECTOR)

Sandra Platts is a resident of Guernsey and holds a Masters in Business Administration. Mrs Platts joined Kleinwort Benson (CI) Ltd in 1986 and was appointed to the board in 1992. She undertook the role of Chief Operating Officer for the Channel Islands business and in 2000 for the Kleinwort Benson Private Bank Group – UK and Channel Islands. In January 2007, she was appointed to the position of Managing Director of the Guernsey Branch of Kleinwort Benson and led strategic change programmes as part of her role as Group Chief Operating Officer. Mrs Platts also held directorships on the strategic holding board of the KB Group, as well as sitting on the Bank, Trust Company and Operational Boards. She resigned from these boards in 2010. Mrs Platts is a non executive director of NB Global Floating Rate Income Fund Limited and UK Commercial Property REIT (both listed on the Main Market of the London Stock Exchange) and Investec Bank (Channel Islands) Limited, plus a number of other investment companies. She is a member of the Institute of Directors.



JONATHAN (JON) BRIDEL

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.

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

TIM DRAYSON

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

KATE THURMAN

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 ca. £150 million of commercial debt. Her former executive career included senior roles in Asset Management and Investment Banking organisations.

DISCLOSURE OF DIRECTORSHIPS IN PUBLIC COMPANIES LISTED ON RECOGNISED STOCK EXCHANGES

The Directors hold the following directorships in other public companies:

| Director | Company name | Stock Exchange |
|-----------------------------|--|-------------------------------------|
| Robert Jennings, CBE | 3i Infrastructure plc | London Stock Exchange – Main Market |
| Sandra Platts | NB Global Floating Rate Income Fund Limited | London Stock Exchange – Main Market |
| | UK Commercial Property REIT | London Stock Exchange – Main Market |
| | Marble Point Loan Financing Limited | London Stock Exchange – SFS |
| Jan Pethick | None | |
| Jon Bridel | 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 |
| | Starwood European Real Estate Finance Limited (until 31 December 2020) | London Stock Exchange – Main Market |
| | The Renewables Infrastructure Group Limited | London Stock Exchange – Main Market |

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 2020.

RESULTS AND DIVIDENDS

The results for the year are shown in the Statement of Comprehensive Income on page 44.

The Directors have declared and paid dividends of £78,947,224 during the year ended 31 March 2020 (2019: £55,365,515). Further details of dividends declared or paid are detailed in note 4 to the Financial Statements.

Further to the Company's announcement of 22 May 2019, and with effect from the quarter ended 30 June 2019, its dividend policy, in the absence of any significant restricting factors, is to pay dividends totalling 6.25p per ordinary share per annum (increased from 6p per ordinary share) for the foreseeable future. This policy was reaffirmed by the Company on 15 April 2020 for the financial year ended 31 March 2021. The Company pays dividends on a quarterly basis.

INDEPENDENT AUDITOR

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

DIRECTORS AND DIRECTORS' INTERESTS

The Directors, all of whom are independent and non-executive, are listed on page 22.

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

Robert Jennings serves as Chair of the Nomination Committee; Jan Pethick as Chair of the Management Engagement Committee; Jon Bridel as Chair of the Risk Committee; and Sandra Platts as Chair of the Audit Committee and the Remuneration Committee. Jan Pethick, Jon Bridel and Sandra Platts are each entitled to an additional fee of £7,000 per annum in relation to their roles as Committee Chair. Sandra Platts is entitled to a further additional fee of £5,000 per annum in relation to her role as Senior Independent Director.

During the year, Robert Jennings, Jan Pethick, Jon Bridel and Sandra Platts each received a listing fee of £6,000 in connection with the Open Offer, Ordinary Share Placing and Offer for Subscription on 27 June 2019, which was subject to admission. Following a review of the Company's remuneration policy, the Directors determined that such fees would no longer apply, and therefore no fee was paid in connection with the Open Offer, Ordinary Share Placing and Offer for Subscription on 3 March 2020.

For further information related to Directors' remuneration, please refer to the Directors' Remuneration Report on page 33.

As at 31 March 2020, the Directors had the following interests in the shares of the Company:

| Name | Number of Ordinary Shares | Percentage of Ordinary Shares in issue |
|--|---------------------------|--|
| Robert Jennings (Chairman) (with other members of his family) | 242,666 | 0.02% |
| Jan Pethick (with his spouse) | 263,820 | 0.02% |
| Jon Bridel (with his spouse) | 10,452 | 0.00% |
| Sandra Platts (in a family RATS) | 26,776 | 0.00% |

During the year, Robert Jennings acquired 22,666 ordinary shares in the Open Offer, Placing and Offer for Subscription on 3 March 2020. A holding of 20,000 ordinary shares previously deemed to be a connected holding has been disaggregated where this is no longer the case.

During the year, Sandra Platts acquired 2,384 ordinary shares in the Open Offer, Placing and Offer for Subscription on 27 June 2019 and 5,319 ordinary shares in the Open Offer, Placing and Offer for Subscription on 3 March 2020.

SUBSTANTIAL SHAREHOLDINGS

As at 31 March 2020, the Company had the following shareholdings in excess of 5% of the issued share capital:

| Name | Number of Ordinary Shares | Percentage |
|------------------------------|---------------------------|------------|
| Investec Wealth & Investment | 126,095,443 | 7.62% |
| Rathbones | 86,092,111 | 5.20% |

RELATED PARTIES

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

LISTING REQUIREMENTS

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

FOREIGN ACCOUNT TAX COMPLIANCE ACT

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

COMMON REPORTING STANDARD

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

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE

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

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

ANTI-BRIBERY AND CORRUPTION

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

CRIMINAL FINANCES ACT

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

UK MODERN SLAVERY ACT

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

By order of the Board

Sandra Platts
Director

24 June 2020

Corporate governance

COMPLIANCE

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

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

For the year ended 31 March 2020, the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code. Issues that are not reported on in detail here are excluded because they are deemed to be irrelevant to the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties and as a result the Company has no executive directors, employees or internal operations and therefore has not reported in respect of provisions concerning the role of the chief executive, the remuneration of executive directors', or the internal audit function.

COMPOSITION OF THE BOARD AND INDEPENDENCE OF DIRECTORS

As at 31 March 2020, the Board of Directors comprised four non-executive and independent Directors as set out below. The Company has no executive Directors or any employees. The Chair and all Directors are considered independent of the Investment Adviser, the Investment Manager, the Administrator and Company Secretary. The Directors consider that there are no factors, as set out in the AIC Code, which compromise the Directors' independence and that they all contribute positively to Board effectiveness. The Board reviews the independence of all Directors annually. Robert Jennings is deemed to be independent by the Board prior to his appointment as Chair of the Company. The Directors' biographies are disclosed on page 22.

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

Jan Pethick is the Chair of the Management Engagement Committee.

Jon Bridel is the Chair of the Risk Committee.

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

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

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

Recognising the increased size of the Company, in 2018 the governance arrangements of the Board evolved and changes included the appointment of Sandra Platts as Senior Independent Director ("SID") to provide support to the Chair in setting and overseeing the strategic direction of the Board. The responsibilities of the SID also include being available to Shareholders as an additional point of contact or to communicate any concerns to the Board, and working closely with the Nomination Committee to develop the Board's succession planning and pipeline.

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

In accordance with the AIC Code, all Directors are subject to re-election annually by Shareholders. The Board has adopted a policy on tenure that it considers appropriate for an investment company. The Board does not consider length of service by itself to be a factor impairing director independence. However, the Board's tenure and succession policy applied to all non-executive Directors seeks to ensure that the Board remains well balanced and that skills, knowledge and experience of the Board 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, the Nomination Committee confirmed the Board's approach to an orderly and gradual phasing of its membership whereby the first of those Directors appointed at the Company's launch would retire without seeking re-appointment at the 2021 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 findings of the Nomination Committee's most recent review of the size, structure and composition of the Board concluded that it would be appropriate to increase the size of the Board and a search for a suitable Guernsey-based female Director has been ongoing for some time. Notwithstanding, the Board believes that it is currently functioning in a highly effective manner. To the extent a suitable fifth director is not appointed in the near-term the Board will seek to address the balance of gender diversity as part of its succession planning arrangements to be implemented in 2021. Until these plans are realised, when including the role of Kate Thurman as Independent Consultant to the Board and that of Sandra Platts' as SID, one third of the overall independent oversight of the Company is provided by women. A statement of the Board's views on diversity and succession can be found at www.seqifund.com/investors/documents-circulars.

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

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 Chairman and, as regards the Chairman's performance evaluation, by the Senior Independent Director. 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.

The last externally facilitated Board effectiveness review was undertaken by Condign Board Consulting Limited and concluded in May 2018. 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; the balance of Shareholder returns with other measures of success, including yields, assets under management and NAV; the ongoing cohesiveness of the Board and its key advisers; its oversight of Shareholder relationships and communications; and issues relating to 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.

Certain findings from the Board's internal performance evaluation for the financial year ended 31 March 2020 identified matters to which consideration would be given during the coming year. These include assessing the appropriateness of the size of the Board in light of the Company's continued growth and the skills and experience to be provided by a future appointee to the Board.

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 2021.

Corporate governance

Continued

DIRECTORS' REMUNERATION

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

No Director has a service contract with the Company and details of the Directors' remuneration, and changes thereto reflecting the increased time commitment required of the Board, can be found in the Directors' Remuneration Report on page 33.

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.

The Company reports to Shareholders twice a year by way of the Interim and Annual Reports. In addition, net asset values are published monthly, and the Investment Adviser publishes monthly reports to Shareholders, in addition to the transcripts of any investor calls held, on its website www.seqifund.com.

The Board receives quarterly reports on the Shareholder profile of the Company and regular contact with major Shareholders is undertaken by the Company's corporate brokers and the executives of the Investment Adviser. Any issues raised by major Shareholders are reported to the Board on a regular basis.

The Chairman 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. Members of the Board, including the Chairman and the Audit Committee Chair, and

the Investment Adviser, are also available to answer any questions which may be raised by any Shareholder at the Company's Annual General Meeting. Any general queries can also be submitted to the Board via the Company Secretary at the Company's registered office.

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, the Board considers as part of its decision-making process the interests of all of the Company's key 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.

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 impact 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.

DIRECTORS' MEETINGS AND ATTENDANCE

The table below shows the Directors' attendance at Board and Committee meetings during the 2019/20 annual Board cycle.

| | Number of meetings held | Robert Jennings* | Sandra Platts | Jan Pethick* | Jon Bridel |
|---------------------------------|----------------------------|------------------|---------------|--------------|------------|
| Board – scheduled | 4 | 4 | 4 | 4 | 4 |
| Board – ad hoc | 16 | 14 | 16 | 13 | 16 |
| Audit Committee | 2 | 2 | 2 | 2 | 2 |
| Risk Committee | 4 | 4 | 4 | 4 | 4 |
| Nomination Committee | 1 | 1 | 1 | 1 | 1 |
| Remuneration Committee | 1 | 1 | 1 | 1 | 1 |
| Management Engagement Committee | 1 | 1 | 1 | 1 | 1 |
| Listing Committee | 2 | N/A | N/A | 2 | 2 |

* Onshore resident Directors

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

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

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

Continued

BOARD COMMITTEES

Audit Committee

As at 31 March 2020, the Audit Committee comprised Sandra Platts, Jon Bridel, Jan Pethick and Robert Jennings, and was chaired by Sandra Platts. The Committee meets at least three times a year.

The key objectives of the Audit Committee include a review of the Financial Statements to ensure they are prepared to a high standard and comply with all relevant legislation and guidelines, where appropriate, and to maintain an effective relationship with the Auditor. The Audit Committee also reviews, considers and, if appropriate, recommends for the purposes of the Company's Financial Statements the valuations prepared by the Investment Manager and Investment Adviser. With respect to the Auditor, the Audit Committee's role will include the assessment of their independence and the effectiveness of the audit, and a review of the Auditor's engagement letter and remuneration and any non-audit services provided by the Auditor. For the principal duties and report of the Audit Committee please refer to the Report of the Audit Committee on pages 39 to 41.

Risk Committee

As at 31 March 2020, the Risk Committee comprised Jon Bridel, Robert Jennings, Jan Pethick and Sandra Platts, and was chaired by Jon Bridel. The Committee meets quarterly.

The principal function of the Risk Committee is to identify, assess, monitor and, where possible, oversee the management of risks to which the Company's investments are exposed, principally to enable the Company to achieve its target investment objective of regular, sustained, long-term distributions over the planned life of the Company, with regular reporting to the Board. As the Company is an externally managed non-EU AIF for the purposes of AIFMD, the Directors have appointed the Investment Manager as AIFM to manage the additional risks faced by the Company as well as the relevant disclosures to be made to investors and regulators. On 30 January 2015, the FCA confirmed that the Company was eligible to be marketed via the FCA's National Private Placement Regime and the Company has complied with Article 22 and 23 of the AIFMD for the year ended 31 March 2020.

The Risk Committee works closely with IFML and, as required, the independent consultants, and provides oversight of the Company's risk management function. The financial year under review saw a high volume of

transactions completed which, particularly in certain cases where the profile of the transaction met the internally agreed criteria for escalation, required extensive liaison between the Directors, the independent consultants and IFML to apply appropriate scrutiny to the investment proposition and ensure that the Company would not be exposed to undue credit risk.

As part of the Risk Committee's ongoing monitoring of the risk management framework, during the year enhancements were recommended to certain credit monitoring procedures to provide the Directors with greater insight to factors such as 'ramp-up' and construction risk. The Committee welcomes the appointment of Mr Anurag Gupta as CRO to the Investment Adviser, further strengthening the risk management and due diligence functions employed throughout the credit process.

Nomination Committee

As at 31 March 2020, the Nomination Committee comprised Jon Bridel, Robert Jennings, Jan Pethick and Sandra Platts, and was chaired by Robert Jennings. The Committee meets at least once annually.

The Committee's key duties include, but are not limited to, reviewing the structure, size and composition of the Board, to consider the succession planning for Directors and senior executives, reviewing the leadership needs of the organisation and identifying candidates for appointment to the Board. The process of Board evaluation for the financial year-ended 31 March 2020 was led by the Chair and conducted internally by way of written questionnaires.

During the review undertaken during the year of the size, structure, composition and effectiveness of the Board, it was concluded by the Nomination Committee that the incumbent Board, together with its Independent Consultants, continues to provide the breadth of skills, knowledge and experience to discharge its duties effectively, and to meet the leadership needs of the Company. In response to comments from the internal Board effectiveness review, particularly concerning the size of the Board and gender diversity, steps are being taken by the Nomination Committee to ensure the approach to succession planning continues to support the development of a diverse pipeline of potential candidates (as explained under 'Board Diversity' section of this report).

In order to avoid undue disruption from the departure of multiple Directors in the same year, and for reasons of continuity, the Nomination Committee confirmed the Board's

approach to an orderly and gradual phasing of its membership, as set out in its formal succession plan, whereby the first of those Directors appointed at the Company's launch would retire without seeking re-appointment at the 2021 AGM. Shareholders will be asked to approve the appointment of his or her successor at this meeting.

Remuneration Committee

As at 31 March 2020, the Remuneration Committee comprised Jon Bridel, Robert Jennings, Jan Pethick and Sandra Platts, and was chaired by Sandra Platts. The Committee meets at least once annually.

The Committee is responsible for considering the remuneration of the Directors and determining the Company's remuneration policy. In conjunction with the Company's advisers, the Remuneration Committee undertook a detailed review of the Company's remuneration policy. Changes agreed as part of this review provide the Company with a simplified remuneration structure which better reflects industry practice. For details of the remuneration of the Directors during the year, please refer to the Directors' Remuneration Report on page 33.

Management Engagement Committee

As at 31 March 2020, the Management Engagement Committee comprised Jon Bridel, Robert Jennings, Jan Pethick and Sandra Platts, and was chaired by Jan Pethick. The Committee meets at least once annually.

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 page 35.

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 on-going 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.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' 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. Under that law they are required to prepare the Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB and applicable law.

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

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

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

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Company law. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

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

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT

Each of the Directors, who are listed on page 22, 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 Chairman's Statement, the Investment Adviser's 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

24 June 2020

Directors' remuneration report

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:

| | Per annum £ | Year ended 31 March 2020 Actual £ | Year ended 31 March 2019 Actual £ |
|--|----------------|--|--|
| Robert Jennings (Chairman of the Board and the Nomination Committee) | 66,800 | 66,800 | 65,000 |
| Jan Pethick (Chair of the Management Engagement Committee) | 51,300 | 51,300 | 50,000 |
| Jon Bridel (Chair of the Risk Committee) | 51,300 | 51,300 | 50,000 |
| Sandra Platts (Chair of the Audit and Remuneration Committees) | 56,300 | 56,300 | 50,000 |
| Total | 225,700 | 225,700 | 215,000 |

In addition, Robert Jennings, Jan Pethick, Jon Bridel and Sandra Platts each received a listing fee of £6,000 in connection with the Open Offer, Ordinary Share Placing and Offer for Subscription on 27 June 2019, consistent with the policy applied in previous years. However, following a review of the Company's remuneration policy, the Directors resolved that they would henceforth forego any such fees, as a result of which no fee was paid in connection with the Open Offer, Ordinary Share Placing and Offer for Subscription on 3 March 2020.

The remuneration policy set out above is the one applied for the year ended 31 March 2020.

In consultation with the Company's advisers during March 2020, the Remuneration Committee engaged PwC to undertake an independent review of the Company's remuneration policy, which included receiving reports benchmarking the Company's position relative to peers and other vehicles in the listed infrastructure and debt sectors.

PwC's work as remuneration consultant was performed independently from their portfolio valuation services. No other connection exists between PwC and the Company or its individual Directors. Having reviewed the level of activity over the prior year and the time requirement placed on the Directors in attending to matters as the Company continued to gain scale, it was agreed that the Company's remuneration policy be amended such that an increase should be applied to the fees payable to the Chair, the SID and to each of the Directors for acting as a Committee Chair. However, as noted above, it was also agreed that the additional fees paid to the Directors in prior years for work in relation to capital raises shall no longer form part of the policy. No Director was involved in determining his or her own remuneration.

Directors' remuneration report

Continued

Accordingly, conditional on receiving Shareholder approval to the Remuneration Report at the 2020 AGM, the total amount of fees payable to the Directors for the forthcoming financial year will be as follows, representing a decrease in total fees payable of over 1.6% against the current year:

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

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

The Directors were appointed as non-executive Directors by letters issued on 6 January 2015, and subsequently revised on 1 July 2019. Each Director's appointment letter provides that, upon the termination of their appointment, they must resign in writing and all records remain the property of the Company. The Directors' appointments can be terminated in accordance with the Articles and without compensation. The notice period for the removal of Directors is two months as specified in the Director's appointment letter. The Articles provide that the office of director shall be terminated by, among other things: (a) written resignation; (b) unauthorised absences from board meetings for twelve 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 2020 are shown in note 10 to the Financial Statements and related to services provided as non-executive Directors. No Director has a service contract with the Company, nor are any such contracts proposed.

Sandra Platts

Remuneration Committee Chair

24 June 2020

Report of the management engagement committee

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).

CHAIRMAN AND MEMBERSHIP

As at 31 March 2020, the Management Engagement Committee comprised Jon Bridel, Robert Jennings, Jan Pethick and Sandra Platts, and was chaired by Jan Pethick. The Committee meets at least once a year.

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

DUTIES

Through the Committee, the Directors continually monitor the performance and the continued appointment of all key service providers and a formal, detailed assessment of the performance and the terms of engagement of the Company's key service providers is undertaken on at least an annual basis to ensure each remains fair and reasonable. This annual review process includes two-way feedback, which provides the Board with an opportunity to understand the views, experiences and any significant issues encountered by service providers during the year. In addition, the Management Engagement Committee is actively involved in monitoring and reviewing the overall basis of remuneration for the Investment Adviser, particularly to ensure that this 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

Key matters considered by the Management Engagement Committee during the year included an on-site visit to the offices of the Custodian during January 2020 to meet with key personnel, to review the performance and the key systems, processes and procedures in place by the Custodian. No material issues or deficiencies were reported from the review and actions were agreed to enhance coordination between the Custodian and other key service providers.

As part of the Board's annual performance evaluation, additional feedback is received on the quality of service and the effectiveness of the working relationships with each of the Company's key service providers. No material actions arose as a result of the last review.

Taking into consideration the supplementary guidance issued by the AIC in 2019 which described certain measures by which investment companies may assess the relationship with portfolio managers, during November 2019 the Committee undertook an enhanced qualitative assessment of the performance and relationship with Sequoia Investment Management Company Limited. The feedback from this assessment reaffirmed the view that the Investment Adviser held significant experience in the markets in which the Company operated, a strong focus remained on the performance of their core duties, and there existed a high level of congruence between the duties of the Investment Adviser and the objectives of the Company. 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

24 June 2020

Report of the audit committee

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).

CHAIRMAN AND MEMBERSHIP

As at 31 March 2020, the Audit Committee comprised Jon Bridel, Robert Jennings, Jan Pethick and Sandra Platts, and was chaired by Sandra Platts. The Board believes that it is appropriate for the Chairman of the Company to be a member of the Audit Committee as it feels that the breadth of his financial experience is of great value to the work of the Committee in the discharge of its responsibilities. All members of the Committee are independent Directors; have no links with KPMG Channel Islands Limited, the Company's Auditor (the "Auditor" or "KPMG"); and are independent of the Investment Manager and Investment Adviser. The membership of the Audit Committee and its terms of reference are kept under review. The relevant qualifications and experience of each member of the Audit Committee are detailed on page 22 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 principal risks associated with the preparation of the Financial Statements. The principal risk identified in the preparation of these Financial Statements is the valuation of the Company's investment in Sequoia IDF Asset Holdings S.A., its subsidiary company (the "Subsidiary"), which holds all of the underlying investments.

The Company's investment in the Subsidiary had a fair value of £1,551,492,432 as at 31 March 2020 (2019: £1,118,045,818), representing a substantial proportion of the net assets of the Company, and as such is the biggest factor in relation to the accuracy of the Financial Statements. PwC was engaged as Valuation Agent throughout the year and was responsible for carrying out a fair market valuation review of the Subsidiary's investments on a monthly basis. Draft pricing for the Subsidiary's investments is provided by the Investment Adviser to the Valuation Agent, who in turn produces a final valuation report for review by the Investment Adviser and the Investment Manager. Final responsibility for the valuation of the Subsidiary's investments, subject to Board approval, rests with the Investment Manager. This report is then submitted to TMF Luxembourg S.A. (the "Sub-Administrator"), for inclusion in the Subsidiary's NAV.

The Audit Committee has regular dialogue with the Investment Manager and Investment Adviser regarding the methods of valuation used. It reviews and may challenge their methodologies, controls and processes of valuation used to value the Subsidiary's investments. The Audit Committee regularly reviews the valuations prepared by the Investment Adviser for investments where market prices are not readily available. At the year end these represented 77.9% (2019: 68.9%) of total investments. Where appropriate these valuations are scrutinised and compared against valuations of investments with similar characteristics or subject to a sensitivity analysis based on changes in key assumptions. The Audit Committee has also considered the Auditor's approach to their audit of the valuation of the Subsidiary's investments and discussed with the Auditor their approach to testing the appropriateness and robustness of the valuation

methodologies applied. The Auditor has not reported any significant differences between the valuations used and the results of the work performed during their testing process.

In relation to the 31 March 2020 valuation specifically, the Audit Committee was aware that, during March 2020, there had been substantial financial market disruption caused by COVID-19, the resultant shut-down of large parts of the global economy and the accompanying material decline in the price of oil. This manifested itself through both declines in the value of many financial assets and increased volatility in these types of assets. As such, the year-end valuation process was especially challenging and necessitated an enhanced level of focus and diligence from all parties involved. Significant work was undertaken to assess comparable instruments for the purposes of valuing private debt instruments and there was, in parallel, a focused initiative to reassess the credit quality of the Company's investments in the light of the economic consequences of COVID-19. One of the reasons why the Company announced a two-week moratorium on new investments on 16 March 2020 was to ensure that the full resources of the Investment Adviser could be dedicated to this analysis, which was shared with, and challenged by, PwC, the Audit Committee, the Investment Manager and the Company's independent consultants.

Based on the review and analysis described above, the Audit Committee is satisfied that, as at 31 March 2020, the fair values of the Subsidiary's investments fully reflect the market disruption caused by COVID-19 and its specific effects on the Company's investments. As a result, the Audit Committee is satisfied that as at 31 March 2020, as stated in the Financial Statements, the fair value of the Company's investment in the Subsidiary is reasonable.

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

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

EXTERNAL AUDITOR

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

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

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

For the year ended 31 March 2020, 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.

Report of the audit committee

Continued

EXTERNAL AUDITOR CONTINUED

The Audit Committee notes the current financial year marked KPMG's fifth year holding office as external Auditor. In line with the rotation requirements, the Company's lead audit partner will change for the year ending 31 March 2021, subject to Shareholders approving the reappointment of KPMG as external Auditor at the 2020 Annual General Meeting.

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 2020, other than the Interim review, no non-audit services were provided by KPMG.

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

| | For the year ended 31 March 2020 £ | For the year ended 31 March 2019 £ |
|--------------------------------|---|---|
| Annual audit of the Company | 133,000 | 95,000 |
| Interim review of the Company | 28,000 | 25,750 |
| Annual audit of the Subsidiary | 32,600 | 28,000 |

INTERNAL CONTROLS

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

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

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

In accordance with the guidance on risk management, internal control and financial and business reporting published by the Financial Reporting Council (the "FRC") in September 2014, which integrated the earlier guidance of the Turnbull Report, the Audit Committee has reviewed the Company's internal control procedures. These internal controls are implemented by the Company's four main service providers, the Investment Manager, the Investment Adviser, the Administrator and the Custodian. The Audit Committee has performed reviews of the internal financial control systems and risk management systems during the year. The Audit Committee is satisfied with the internal financial control systems of the Company.

Sandra Platts

Audit Committee Chair

24 June 2020

Independent Auditor's report

to the members of Sequoia Economic Infrastructure Income Fund Limited



1. OUR OPINION IS UNMODIFIED

We have audited the financial statements of Sequoia Economic Infrastructure Income Fund Limited (the "Company"), which comprise the statement of financial position as at 31 March 2020, the statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Company as at 31 March 2020, and of the Company's financial performance and cash flows for the year then ended;
- are prepared in accordance with International Financial Reporting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

Basis for opinion

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

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matter was as follows on page 40 (unchanged from 2019).

OVERVIEW

| | |
|---------------------------------|---|
| Materiality: | £29.3m (2019: £32.7m) |
| financial statements as a whole | Approximately 2% (2019: 3%) of net assets |

| | |
|-------------------------|----------------|
| Key audit matter | vs 2019 |
|-------------------------|----------------|

Recurring risks

| | |
|--------------------------|----|
| Valuation of investments | ◀▶ |
|--------------------------|----|

Independent Auditor's report

Continued



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

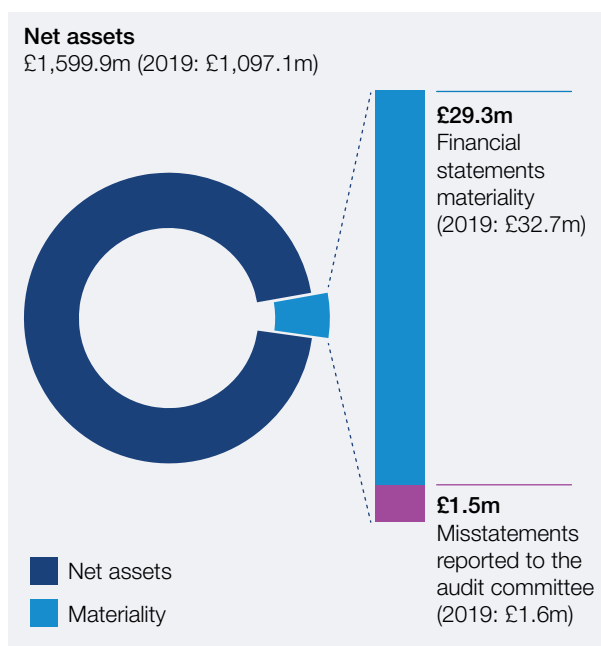
| The risk | Our response |
|---|---|
| <p>Valuation of non-derivative financial assets at fair value through profit or loss</p> <p>£1,551,492,432; (2019: £1,118,045,818)</p> <p><i>Refer to page 36 to 38 of the Report of the Audit Committee, Note 2 accounting policy, Note 5 and Note 6 disclosures.</i></p> <p>Basis: The Company's investment in its Subsidiary is carried at fair value through profit or loss and represents a significant proportion of the Company's net assets. The fair value of the Subsidiary reflects its net asset value, the most significant component of which is its underlying portfolio of senior and subordinated economic infrastructure debt investments valued at £1,532m (2019: £1,139m), namely private loans ("Private Debt") with a fair value of £1,426m (2019: £969m) and publicly traded bonds ("Public Debt") with a fair value of £106m (2019: £170m) (together, the "Portfolio").</p> <p>Private Debt is primarily valued using 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 Company engages a third party valuation expert (the "Valuation Agent") to perform a fair market valuation review of the Private Debt. Public Debt is valued using market pricing data sourced from approved third party pricing vendors.</p> <p>Risk: The valuation of the Company's investment at fair value through profit and loss is considered a significant area of our audit, given that it represents the majority of the net assets of the Company. Inherent in that valuation is the use of significant estimates and judgments in determining the fair value of the Subsidiary's Portfolio. There is a risk of error through the inappropriate selection and application of inputs and/or assumptions in deriving a fair value for the Portfolio, including the impact of COVID-19.</p> | <p>Our procedures included, but were not limited to:</p> <p>Internal controls We evaluated the design, implementation and operating effectiveness of the key controls over the valuation of the Portfolio.</p> <p>Evaluating experts engaged by management With the support of our KPMG valuation specialists:</p> <ul style="list-style-type: none"> • We assessed the objectivity, capabilities and competence of the Valuation Agent engaged by the Company; • We considered the methodology applied by the Valuation Agent in performing their work and held discussions with them which included the impact of COVID-19 on the Portfolio; and • We obtained and assessed the Valuation Agent's findings and considered the impact, if any, on our audit work. <p>Assessing fair value of the Portfolio With the support of our KPMG valuation specialists:</p> <ul style="list-style-type: none"> • We assessed the appropriateness of the valuation methodology applied against our own expectations based on our knowledge of the asset class and experience in the industry; • We held discussions with the Investment Adviser in relation to the Portfolio to identify credit and operational issues, including the impact of COVID-19; and • For 100% by fair value of the Public Debt and 94% by fair value of the Private Debt our KPMG valuation specialist either independently obtained prices from pricing vendors or, where this pricing information was not available, derived an independent mark to model valuation based on market inputs for comparable instruments with similar structural and credit characteristics. <p>For a risk-based sample of Private Debt positions:</p> <ul style="list-style-type: none"> • We agreed key contractual terms such as coupon and repayment terms to supporting documentation; • We compared all expected loan interest receipts versus actual cash flows and evaluated the Investment Adviser's credit memorandums, to assess whether there had been any specific credit events which would impact their fair value; and • We performed research to publicly available information for contradictory evidence. <p>Assessing disclosures: We also considered the Company's disclosures (see Note 3) in relation to the use of estimates and judgements in determining the fair value of the Portfolio and the Company's valuation policies adopted in Note 2 and financial risk and fair value disclosures in Note 5 and Note 6 respectively for compliance with IFRS.</p> |

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

Materiality for the financial statements as a whole was set at £29.3m, determined with reference to a benchmark of net assets of £1,599.9m, of which it represents approximately 2.0%.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.5m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

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



4. WE HAVE NOTHING TO REPORT ON GOING CONCERN

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

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's activities including where relevant the impact of the COVID-19 pandemic and the requirements of the applicable financial reporting framework. We analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the Directors' statement in Note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Independent Auditor's report

Continued



5. WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE ANNUAL REPORT

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

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

Disclosures of emerging and principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement (page 20) that they have carried out a robust assessment of the emerging and principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement (page 20) of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report to you in these respects.

6. WE HAVE NOTHING TO REPORT ON THE OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

7. RESPECTIVE RESPONSIBILITIES

Directors' responsibilities

As explained more fully in their statement set out on page 32, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

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

Dermot Dempsey

For and on behalf of KPMG Channel Islands Limited,
Chartered Accountants and Recognised Auditors
Guernsey

24 June 2020

Statement of comprehensive income

For the year ended 31 March 2020

| | Note | Year ended 31 March 2020 £ | Year ended 31 March 2019 £ |
|--|------|----------------------------------|----------------------------------|
| Revenue | | | |
| Net (losses)/gains on non-derivative financial assets at fair value through profit or loss | 6 | (112,892,142) | 3,634,711 |
| Net losses on derivative financial assets at fair value through profit or loss | 7 | (47,992,453) | (26,634,900) |
| Investment income | 9 | 115,453,949 | 106,717,142 |
| Net foreign exchange loss | | (937,093) | (1,593,178) |
| Total revenue | | (46,367,739) | 82,123,775 |
| Expenses | | | |
| Investment Adviser fees | 10 | 10,165,841 | 7,312,391 |
| Investment Manager fees | 10 | 344,933 | 320,000 |
| Directors' fees and expenses | 10 | 226,782 | 216,601 |
| Administration fees | 10 | 425,066 | 405,541 |
| Auditor's fees | | 149,074 | 136,129 |
| Legal and professional fees | | 240,948 | 280,542 |
| Valuation fees | | 761,400 | 502,000 |
| Custodian fees | | 235,878 | 215,114 |
| Listing, regulatory and statutory fees | | 127,899 | 105,700 |
| Other expenses | | 464,082 | 286,268 |
| Total operating expenses | | 13,141,903 | 9,780,286 |
| Loan finance costs | 15 | 5,851,763 | 3,172,657 |
| Total expenses | | 18,993,666 | 12,952,943 |
| (Loss)/profit and total comprehensive (loss)/income for the year | | (65,361,405) | 69,170,832 |
| Basic and diluted (loss)/earnings per ordinary share | 13 | (5.03)p | 7.48p |

All items in the above statement are from continuing operations.

The accompanying notes on pages 48 to 78 form an integral part of the Financial Statements.

Statement of changes in Shareholders' equity

For the year ended 31 March 2020

YEAR ENDED 31 MARCH 2020

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

YEAR ENDED 31 MARCH 2019

| | Note | Share capital £ | Retained earnings £ | Total £ |
|---|------|----------------------|------------------------|----------------------|
| At 1 April 2018 | | 746,867,128 | 11,303,074 | 758,170,202 |
| Issue of ordinary shares during the year, net of issue costs | 12 | 325,163,902 | – | 325,163,902 |
| Total comprehensive income for the year | | – | 69,170,832 | 69,170,832 |
| Dividends paid during the year | 4 | – | (55,365,515) | (55,365,515) |
| At 31 March 2019 | | 1,072,031,030 | 25,108,391 | 1,097,139,421 |

The accompanying notes on pages 48 to 78 form an integral part of the Financial Statements.

Statement of financial position

At 31 March 2020

| | Note | 31 March 2020 £ | 31 March 2019 £ |
|---|------|----------------------|--------------------|
| Non-current assets | | | |
| Non-derivative financial assets at fair value through profit or loss | 6 | 1,551,492,432 | 1,118,045,818 |
| Current assets | | | |
| Cash and cash equivalents | 8 | 37,581,698 | 27,633,414 |
| Trade and other receivables | 14 | 90,008,334 | 60,522,481 |
| Derivative financial assets at fair value through profit or loss | 7 | 6,629,477 | 10,598,250 |
| Total current assets | | 134,219,509 | 98,754,145 |
| Total assets | | 1,685,711,941 | 1,216,799,963 |
| Current liabilities | | | |
| Loan payable | 15 | 35,000,000 | 113,875,164 |
| Trade and other payables | 16 | 3,140,194 | 2,364,618 |
| Derivative financial liabilities at fair value through profit or loss | 7 | 47,706,476 | 3,420,760 |
| Total current liabilities | | 85,846,670 | 119,660,542 |
| Total liabilities | | 85,846,670 | 119,660,542 |
| Net assets | | 1,599,865,271 | 1,097,139,421 |
| Equity | | | |
| Share capital | 12 | 1,719,065,509 | 1,072,031,030 |
| Retained (losses)/earnings | | (119,200,238) | 25,108,391 |
| Total equity | | 1,599,865,271 | 1,097,139,421 |
| Number of ordinary shares | 12 | 1,654,671,448 | 1,060,975,849 |
| Net asset value per ordinary share | | 96.69p | 103.41p |

The Financial Statements on pages 44 to 78 were approved and authorised for issue by the Board of Directors on 24 June 2020 and signed on its behalf by:

Sandra Platts

Director

The accompanying notes on pages 48 to 78 form an integral part of the Financial Statements.

Statement of cash flows

For the year ended 31 March 2020

| | Note | Year ended 31 March 2020 £ | Year ended 31 March 2019 £ |
|--|------|----------------------------------|----------------------------------|
| Cash flows from operating activities | | | |
| (Loss)/profit for the year | | (65,361,405) | 69,170,832 |
| Adjustments for: | | | |
| Net losses/(gains) on non-derivative financial assets at fair value through profit or loss | 6 | 112,892,142 | (3,634,711) |
| Net losses on derivative financial assets at fair value through profit or loss | 7 | 47,992,453 | 26,634,900 |
| Investment Adviser fees settled through issue of ordinary shares | 12 | 955,218 | 1,279,907 |
| Net foreign exchange loss | | 937,093 | 1,593,178 |
| Loan finance costs | 15 | 5,851,763 | 3,172,657 |
| Increase in trade and other receivables (excluding finance costs) | 14 | (29,128,510) | (52,430,820) |
| Increase in trade and other payables (excluding finance costs) | 16 | 785,719 | 571,320 |
| | | 74,924,473 | 46,357,263 |
| Cash received on settled forward contracts | | 48,119,873 | 17,278,070 |
| Cash paid on settled forward contracts | | (47,857,837) | (36,958,973) |
| Purchases of investments | 6 | (916,880,278) | (534,891,241) |
| Sales of investments | 6 | 370,541,522 | 194,907,810 |
| Net cash outflow from operating activities | | (471,152,247) | (313,307,071) |
| Cash flows from financing activities | | | |
| Net proceeds from issue of ordinary shares | | 646,079,261 | 323,883,995 |
| Proceeds from drawdown of loan | 15 | 450,311,769 | 260,249,614 |
| Repayment of loan | 15 | (531,249,054) | (186,730,072) |
| Loan finance costs paid | | (6,221,221) | (3,022,861) |
| Dividends paid | 4 | (78,947,224) | (55,365,515) |
| Net cash inflow from financing activities | | 479,973,531 | 339,015,161 |
| Net increase in cash and cash equivalents | | 8,821,284 | 25,708,090 |
| Cash and cash equivalents at beginning of year | | 27,633,414 | 2,393,742 |
| Effect of foreign exchange rate changes on cash and cash equivalents during the year | | 1,127,000 | (468,418) |
| Cash and cash equivalents at end of year | | 37,581,698 | 27,633,414 |

The accompanying notes on pages 48 to 78 form an integral part of the Financial Statements.

Notes to the financial statements

For the year ended 31 March 2020

1. GENERAL INFORMATION

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

The Company makes its investments through Sequoia IDF Asset Holdings S.A. (the “Subsidiary”). 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 and has no underlying subsidiaries.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The Annual Financial Statements (the “Financial Statements”), which give a true and fair view, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and are in compliance with the Companies (Guernsey) Law, 2008, the Prospectus Rules, the Disclosure Guidance and Transparency Rules and the Market Abuse Directive (as implemented in the UK through Financial Services and Markets Authority).

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 individual 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).

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

GOING CONCERN

The Company has been incorporated with an unlimited life. In accordance with the Company's Articles of Incorporation, the Directors were required to propose an ordinary resolution (the "Continuation Resolution") on or before 3 September 2016 that the Company continues as a registered closed-ended collective investment scheme, and to propose further Continuation Resolutions within every three years thereafter. The first Continuation Resolution was passed by Shareholders at an Extraordinary General Meeting of the Company on 25 May 2016, and the second on 16 August 2018 at the Company's Annual General Meeting ("AGM"). Should a Continuation Resolution not be passed, the Directors are required to put forward proposals within six months for the reconstruction or reorganisation of the Company to the Shareholders for their approval. These proposals may or may not involve winding up the Company and, accordingly, failure to pass a Continuation Resolution will not necessarily result in the winding up of the Company.

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

The Directors have reviewed the Company's holdings in cash and cash equivalents and investments, including a consideration of the revaluation losses arising on certain investments as a result of the COVID-19 pandemic, and have considered the income deriving from those investments, as well as the likelihood that future Continuation Resolutions will be passed. 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 effects of the COVID-19 pandemic, has a strong balance sheet and adequate financial resources to meet its liabilities as they fall due.

NEW ACCOUNTING STANDARDS EFFECTIVE AND ADOPTED

- IFRS 9 (amended), "Financial Instruments" (amendments regarding prepayment features with negative compensation and modifications of financial liabilities, effective for periods commencing on or after 1 January 2019).

In addition, the IASB completed its Annual Improvements 2015-2017 Cycle project in December 2017. This project has amended certain existing standards and interpretations effective for accounting periods commencing on or after 1 January 2019.

The adoption of these amended standards has had no 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 instruments – fair value and subsequent measurement' within this note; gains or losses on derivative financial instruments are calculated as described in the section 'Derivative financial instruments – fair value and subsequent measurement' within this note.

Notes to the financial statements

For the year ended 31 March 2020 continued

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

EXPENSES

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

SHARE-BASED PAYMENTS (EQUITY-SETTLED)

In accordance with the terms of the Investment Advisory Agreement, one tenth (up to 31 August 2018, one quarter) of the Investment Adviser's fee is settled through the issue of ordinary shares in the Company. Services received in exchange for the grant of any share-based payments are measured indirectly by reference to the fair value of the ordinary shares at the date of issue. Share-based payments are recognised as an expense in profit or loss of the Statement of Comprehensive Income.

ORDINARY SHARES

The ordinary shares of the Company are classified as equity based on the substance of the contractual arrangements and in accordance with the definition of equity instruments under IAS 32. The proceeds from the issue of participating 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 are 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Derivative financial instruments – fair value and subsequent measurement

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

Derecognition

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

FOREIGN CURRENCY

Functional and presentation currency

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

Notes to the financial statements

For the year ended 31 March 2020 continued

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

FOREIGN CURRENCY CONTINUED

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

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

3. USE OF JUDGEMENTS AND ESTIMATES

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

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

3. USE OF JUDGEMENTS AND ESTIMATES CONTINUED

The principal judgements and estimates are as follows:

JUDGEMENTS

Functional currency

Refer to note 2 'Functional and presentation currency'.

Investment Entity

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

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 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 report of the Audit Committee (page 36) and the additional methodology disclosures in note 6 underline the additional valuation estimation uncertainty caused by COVID-19's impact on the financial markets. The valuations of forward foreign exchange contracts are prepared with reference to prevailing exchange rates. The Directors consider that these valuations represent the best estimate of the fair values of the Company's investment in the Subsidiary and its underlying infrastructure investments and in forward foreign exchange contracts.

Notes to the financial statements

For the year ended 31 March 2020 continued

4. DIVIDENDS

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

The Company paid the following dividends on its ordinary shares during the year ended 31 March 2020:

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

The Company paid the following dividends on its ordinary shares during the year ended 31 March 2019:

| Period to | Payment date | Dividend rate per Ordinary Share (pence) | Net dividend payable (£) | Record date | Ex-dividend date |
|-------------------|------------------|--|--------------------------|-----------------|------------------|
| 31 March 2018 | 25 May 2018 | 1.5000 | 11,224,736 | 27 April 2018 | 26 April 2018 |
| 30 June 2018 | 24 August 2018 | 1.5000 | 12,321,526 | 27 July 2018 | 26 July 2018 |
| 30 September 2018 | 22 November 2018 | 1.5000 | 15,907,343 | 26 October 2018 | 25 October 2018 |
| 31 December 2018 | 22 February 2019 | 1.5000 | 15,911,910 | 25 January 2019 | 24 January 2019 |

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 approved the implementation of a scrip dividend scheme whereby the Company may from time to time offer to any holders of ordinary shares the right to elect to receive ordinary shares credited as fully paid in lieu of cash. The decision whether to offer such a scrip dividend alternative in respect of any dividend will be made by the Directors at the time the relevant dividend is declared.

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.

5. FINANCIAL RISK MANAGEMENT CONTINUED

MARKET RISK CONTINUED

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 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 debt investments, which are held in a portfolio at the Subsidiary level. The various components of the Company's market risk are managed on a daily basis by the Investment Manager in accordance with policies and procedures in place, as detailed below.

In addition, the Company, through the underlying 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 has no investment restrictions which would confine its 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 bank overdraft positions will be affected by fluctuations in interest rates. Interest rate risk on cash and cash equivalents at Company and Subsidiary level is not considered significant.

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

| | 31 March 2020 | | 31 March 2019 | |
|--|-------------------------|---------------|-------------------------|---------------|
| | Range of interest rates | £ | Range of interest rates | £ |
| Investments with floating interest rates | 0.00% to 12.52% | 1,068,190,141 | 0.00% to 12.60% | 790,763,073 |
| Investments with fixed interest rates | 3.88% to 11.00% | 464,629,429 | 3.88% to 13.94% | 348,515,119 |
| Financial assets at fair value through profit or loss (note 6) | | 1,532,819,570 | | 1,139,278,192 |

Notes to the financial statements

For the year ended 31 March 2020 continued

5. FINANCIAL RISK MANAGEMENT CONTINUED

MARKET RISK CONTINUED

Interest Rate Risk continued

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 2020 effect on net assets and profit or loss £ | 31 March 2019 effect on net assets and profit or loss £ |
|---|--|--|
| +1% | (18,278,814) | (18,292,303) |
| -1% | 19,720,694 | 20,139,211 |

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

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

Currency risk

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

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

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

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

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

5. FINANCIAL RISK MANAGEMENT CONTINUED

MARKET RISK CONTINUED

Currency risk continued

| | 31 March 2020 £ | 31 March 2019 £ |
|---|---------------------|--------------------|
| USD Exposure | | |
| Financial assets at fair value through profit or loss | 821,314,508 | 591,848,993 |
| Forward foreign exchange contracts | (890,275,485) | (564,652,969) |
| Cash and cash equivalents | 80,319,309 | 20,424,877 |
| Trade and other receivables | 10,035,723 | 4,166,767 |
| Loan payable | – | (53,875,164) |
| Trade and other payables | (10,767,757) | (34,141) |
| Net USD Exposure | 10,626,298 | (2,121,637) |
| EUR Exposure | | |
| Financial assets at fair value through profit or loss | 423,040,901 | 248,240,364 |
| Forward foreign exchange contracts | (488,495,036) | (259,290,882) |
| Cash and cash equivalents | 11,007,714 | 1,420,495 |
| Trade and other receivables | 6,859,451 | 3,610,808 |
| Trade and other payables | (68,610) | (226,155) |
| Net EUR Exposure | (47,655,580) | (6,245,370) |
| NOK Exposure | | |
| Financial assets at fair value through profit or loss | 14,103,302 | 12,584,566 |
| Forward foreign exchange contracts | (17,684,148) | (11,503,375) |
| Cash and cash equivalents | 904,421 | 1,236 |
| Trade and other receivables | 169,434 | 256,168 |
| Net NOK Exposure | (2,506,991) | 1,338,595 |
| PLN Exposure | | |
| Financial assets at fair value through profit or loss | – | 1,019,928 |
| Forward foreign exchange contracts | – | (4,515,099) |
| Cash and cash equivalents | – | 56,485 |
| Trade and other receivables | – | 6,112 |
| Net PLN exposure | – | (3,432,574) |
| AUD Exposure | | |
| Financial assets at fair value through profit or loss | 35,558,372 | 40,965,698 |
| Forward foreign exchange contracts | (38,841,991) | (40,141,297) |
| Cash and cash equivalents | – | 279 |
| Trade and other receivables | 733,128 | 894,261 |
| Net AUD exposure | (2,550,491) | 1,718,941 |
| Total exposure | (42,086,764) | (8,742,045) |

Notes to the financial statements

For the year ended 31 March 2020 continued

5. FINANCIAL RISK MANAGEMENT CONTINUED

MARKET RISK CONTINUED

Currency risk continued

| | Possible reasonable change in exchange rate | 31 March 2020 net exposure £ | 31 March 2020 effect on net assets and profit or loss £ | Possible reasonable change in exchange rate | 31 March 2019 net exposure £ | 31 March 2019 effect on net assets and profit or loss £ |
|---------|---|------------------------------------|---|---|------------------------------------|---|
| USD/GBP | +/- 5% | 10,626,298 | +/- 531,315 | +/- 5% | (2,121,637) | -/+ 106,082 |
| EUR/GBP | +/- 5% | (47,655,580) | -/+ 2,382,779 | +/- 5% | (6,245,370) | -/+ 312,269 |
| NOK/GBP | +/- 5% | (2,506,991) | -/+ 125,350 | +/- 5% | 1,338,595 | +/- 66,930 |
| PLN/GBP | +/- 5% | – | – | +/- 5% | (3,432,574) | -/+ 171,629 |
| AUD/GBP | +/- 5% | (2,550,491) | -/+ 127,525 | +/- 5% | 1,718,941 | +/- 85,947 |

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 2020 £ | 31 March 2019 £ |
|-------------------|----------------------|----------------------|
| Sterling | 238,802,487 | 244,618,643 |
| US Dollar | 821,314,508 | 591,848,993 |
| Euro | 423,040,901 | 248,240,364 |
| Norwegian Krone | 14,103,302 | 12,584,566 |
| Polish Zloty | – | 1,019,928 |
| Australian Dollar | 35,558,372 | 40,965,698 |
| Total | 1,532,819,570 | 1,139,278,192 |

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 and Poor's, Moody's and Fitch.

5. FINANCIAL RISK MANAGEMENT CONTINUED

CREDIT AND COUNTERPARTY RISK CONTINUED

| Standard & Poor's rating (or equivalent) | 31 March 2020 £ | 31 March 2019 £ |
|--|----------------------|----------------------|
| BBB- to BBB+ | 20,394,788 | 50,865,441 |
| BB- to BB+ | 78,601,721 | 85,764,906 |
| B- to B+ | 165,946,714 | 157,143,472 |
| CCC- to CCC+ | 19,405,367 | – |
| Unrated | 1,248,470,980 | 845,504,373 |
| | 1,532,819,570 | 1,139,278,192 |

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

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

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

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

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

| | 31 March 2020 £ | 31 March 2019 £ |
|--|----------------------|----------------------|
| Non-derivative financial assets at fair value through profit or loss | 1,551,492,432 | 1,118,045,818 |
| Cash and cash equivalents | 37,581,698 | 27,633,414 |
| Trade and other receivables | 88,878,671 | 59,789,705 |
| Derivative financial assets at fair value through profit or loss | 6,629,477 | 10,598,250 |
| | 1,684,582,278 | 1,216,067,187 |

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 and 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 and Poor's short-term credit rating of Bank of New York Mellon was A-1+ (2019: 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 and Poor's, Moody's or Fitch respectively). The Company's operational cash is held with The Royal Bank of Scotland International Limited ("RBSI"). During the year, the Company has used AFEX Markets plc ("AFEX"), Global Reach Partners ("Global Reach"), Investec Bank (Channel Islands) Limited ("IBCI"), Macquarie Bank Limited ("Macquarie"), Monex Europe Limited ("Monex"), RBSI and TTT Moneycorp Limited ("Moneycorp") to undertake forward foreign exchange transactions. Hedging collateral may be held with these institutions if required. At the year end the short-term credit ratings of these institutions were as follows (Standard & Poores unless otherwise specified): AFEX: no rating; Global Reach: no rating; IBCI: F2 (Fitch); Macquarie: A-1; Monex: B (Fitch); Moneycorp: no rating, and RBSI: A-2 (2019: Global Reach: no rating; IBCI: F2 (Fitch); Monex: B; Moneycorp: no rating; and RBSI: A-2).

Notes to the financial statements

For the year ended 31 March 2020 continued

5. FINANCIAL RISK MANAGEMENT CONTINUED

CREDIT AND COUNTERPARTY RISK CONTINUED

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 2020 £ | 31 March 2019 £ |
|---|--------------------|--------------------|
| United States of America/Canada | 775,373,280 | 524,924,316 |
| Europe | 429,113,987 | 296,559,291 |
| United Kingdom | 238,802,487 | 213,564,143 |
| Australia | 89,529,816 | 104,230,442 |
| Subsidiary financial assets at fair value through profit or loss (note 6) | 1,532,819,570 | 1,139,278,192 |

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 |
|---------------|--|--|
| 31 March 2020 | 3.69 | 1.39 |
| | Largest portfolio holding of a single asset % of total portfolio | Average portfolio holding % of total portfolio |
| 31 March 2019 | 4.95 | 1.45 |

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

| | 31 March 2020 £ | 31 March 2019 £ |
|---|--------------------|--------------------|
| Accommodation | 167,840,298 | 115,728,584 |
| Power | 207,951,468 | 157,481,970 |
| Renewable Energy | 165,840,298 | 116,822,042 |
| Telecommunication, Media and Technology | 255,035,983 | 138,676,788 |
| Transport | 327,299,841 | 209,451,538 |
| Transportation Equipment | 99,159,887 | 85,139,689 |
| Utilities | 129,961,433 | 189,437,264 |
| Other | 179,734,942 | 126,540,317 |
| Subsidiary financial assets at fair value through profit or loss (note 6) | 1,532,819,570 | 1,139,278,192 |

Activities undertaken by the Company and its 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 stringent settlement process is in place.

5. FINANCIAL RISK MANAGEMENT CONTINUED

LIQUIDITY RISK

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

The Company's policy and the Investment Manager's approach to managing liquidity risk in both the Company and the Subsidiary is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

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

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

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

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

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

With the exception of the loan payable (see note 15) and certain forward foreign exchange contracts (see note 7), the Company's accounts receivable and financial liabilities at 31 March 2020 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.

Notes to the financial statements

For the year ended 31 March 2020 continued

5. FINANCIAL RISK MANAGEMENT CONTINUED

CAPITAL MANAGEMENT

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

The Company may employ leverage for short term liquidity or investment purposes. During the year, the Company has increased its revolving credit facility with a consortium of three banks led by Royal Bank of Scotland International Limited from £150 million to £280 million (see note 15).

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

| | Year ended 31 March 2020 £ | Year ended 31 March 2019 £ |
|---|----------------------------------|----------------------------------|
| Cost at the start of the year | 1,078,100,991 | 738,117,560 |
| VFNs purchased during the year | 916,880,278 | 534,891,241 |
| VFNs redeemed during the year | (370,541,522) | (194,907,810) |
| Realised gains on VFNs redeemed during the year | 77,708 | – |
| Cost at the end of the year | 1,624,517,455 | 1,078,100,991 |
| Net unrealised (losses)/gains on non-derivative financial assets at the end of the year | (73,025,023) | 39,944,827 |
| Non-derivative financial assets at fair value through profit or loss at the end of the year | 1,551,492,432 | 1,118,045,818 |

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 2020 £ | 31 March 2019 £ |
|---|--------------------|--------------------|
| Subsidiary's non-derivative financial assets at fair value through profit or loss | 1,532,819,570 | 1,139,278,192 |
| Subsidiary's net current assets/(liabilities) | 18,672,862 | (21,232,374) |
| Company's non-derivative financial assets at fair value through profit or loss | 1,551,492,432 | 1,118,045,818 |

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

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

| | Year ended 31 March 2020 £ | Year ended 31 March 2019 £ |
|--|----------------------------------|----------------------------------|
| Unrealised gains on VFNs | 40,849,001 | 24,351,316 |
| Realised gains on VFNs redeemed | 77,708 | – |
| Unrealised loss on revaluation of the Subsidiary | (153,818,851) | (20,716,605) |
| Net (losses)/gains on non-derivative financial assets at fair value through profit or loss | (112,892,142) | 3,634,711 |

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

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 2020 comprises the following:

| | Year ended 31 March 2020 £ | Year ended 31 March 2019 £ |
|---|----------------------------------|----------------------------------|
| Subsidiary | | |
| Investment income during the year | 110,569,914 | 71,930,640 |
| Net return on financial assets and liabilities during the year, including foreign exchange and VFN interest payable | (269,623,773) | (100,983,218) |
| Net other income during the year | 5,235,008 | 8,335,973 |
| Subsidiary losses during the year | (153,818,851) | (20,716,605) |
| Subsidiary gains brought forward | 2,661,284 | 23,377,889 |
| Subsidiary (losses)/gains carried forward at the end of the year | (151,157,567) | 2,661,284 |
| Company | | |
| Unrealised foreign exchange gains on VFNs brought forward | 37,283,543 | 12,932,227 |
| Unrealised foreign exchange gains on VFNs during the year | 40,849,001 | 24,351,316 |
| Net (losses)/gains on non-derivative financial assets at fair value through profit or loss carried forward at the end of the year | (73,025,023) | 39,944,827 |

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.
- **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.

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For the year ended 31 March 2020 continued

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

FAIR VALUE MEASUREMENT CONTINUED

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

| 31 March 2019 | | | | |
|---|--------------|--------------|---------------|---------------|
| | Level 1 £ | Level 2 £ | Level 3 £ | Total £ |
| Assets | | | | |
| Non-derivative financial assets at fair value through profit or loss | – | – | 1,118,045,818 | 1,118,045,818 |
| Derivative financial assets at fair value through profit or loss | – | 10,598,250 | – | 10,598,250 |
| Total | – | 10,598,250 | 1,118,045,818 | 1,128,644,068 |
| Liabilities | | | | |
| Derivative financial liabilities at fair value through profit or loss | – | 3,420,760 | – | 3,420,760 |
| Total | – | 3,420,760 | – | 3,420,760 |

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.

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

FAIR VALUE MEASUREMENT CONTINUED

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

| | Year ended 31 March 2020 £ | Year ended 31 March 2019 £ |
|---|----------------------------------|----------------------------------|
| Opening balance | 1,118,045,818 | 774,427,676 |
| Purchases | 916,880,278 | 534,891,241 |
| Sales | (370,541,522) | (194,907,810) |
| Net (losses)/gains on non-derivative financial assets in the year | (112,892,142) | 3,634,711 |
| Closing balance | 1,551,492,432 | 1,118,045,818 |

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

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

| 31 March 2019 | | | | |
|--|--------------|--------------|--------------|---------------|
| | Level 1 £ | Level 2 £ | Level 3 £ | Total £ |
| Assets | | | | |
| Non-derivative financial assets at fair value through profit or loss | 46,767,939 | 332,561,459 | 759,948,794 | 1,139,278,192 |

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.

During the year, four investments, with a total value of £5,220,884, were transferred from Level 2 to Level 3 of the fair value hierarchy, and two investments, with a total value of £13,172,971, were transferred from Level 1 to Level 2. Such transfers are recognised at the end of the reporting period in which the change has occurred.

Notes to the financial statements

For the year ended 31 March 2020 continued

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

FAIR VALUE MEASUREMENT CONTINUED

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 2020. The table is not intended to be all-inclusive but instead captures the significant unobservable inputs relevant to our determination of fair values.

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

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 2020 effect on net assets and profit or loss £ | 31 March 2019 effect on net assets and profit or loss £ |
|--------------------|--|--|--|
| Yield | +1% | (15,339,864) | (10,241,221) |
| | -1% | 16,641,452 | 11,266,545 |

The possible changes in the yield 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 PwC as Valuation Agent, with responsibility for reviewing the valuations applied by the Investment Adviser in relation to the acquisition of loans and bonds. 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 Loans and Bonds

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.

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 Loans and Bonds continued

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

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

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

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

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.

Non-performing Portfolio Loans and Bonds

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 regards 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.

At 31 March 2020, in the opinion of the Investment Adviser, there were two non-performing loans in the portfolio, both advanced to the same borrower group.

The effect of COVID-19 on the Net Asset Value

While the process outlined above did not itself change as a result of COVID-19, there was a need for a very high level of care in, firstly, determining appropriate benchmarks or comparable infrastructure loans or bonds for valuation purposes (given the very high levels of volatility in the financial markets in March 2020), and, secondly, ensuring that the underlying cash flow assumptions were appropriate given the economic disruption caused by COVID-19. This was especially important in sectors directly exposed to the disruption, such as transport infrastructure, aircraft leasing and midstream assets, or other assets exposed to oil or gas prices. The Investment Adviser worked closely with the Valuation Agent to ensure that these assumptions were indeed appropriate and were subject to a high level of oversight by the Investment Manager and the Audit Committee. Given the continuing uncertainty around how the COVID-19 pandemic and disruption to oil and gas markets will evolve, the Board and its advisers will continue to monitor developments closely in order to maintain the same level of rigour in the valuation of the Company’s investments going forward.

Notes to the financial statements

For the year ended 31 March 2020 continued

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

VALUATION TECHNIQUES FOR THE INVESTMENT PORTFOLIO OF THE SUBSIDIARY CONTINUED

Finalising the Net Asset Value

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

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

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

As at 31 March 2020, the Company had the following outstanding commitments in respect of open forward foreign exchange contracts, by currency and by counterparty.

31 March 2020

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

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

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

31 March 2019

| Selling currency | Currency amount | Buying currency | GBP amount £ | Unrealised gains £ | Unrealised losses £ | Net unrealised gains/(losses) £ |
|------------------|-----------------|-----------------|-----------------|-----------------------|------------------------|------------------------------------|
| USD | 735,967,700 | GBP | 564,652,969 | 4,617,878 | (2,640,923) | 1,976,955 |
| EUR | 293,600,000 | GBP | 259,290,881 | 5,743,006 | (71,560) | 5,671,446 |
| NOK | 129,900,000 | GBP | 11,503,375 | 24,025 | (84,391) | (60,366) |
| PLN | 21,500,000 | GBP | 4,515,099 | 213,341 | – | 213,341 |
| AUD | 75,000,000 | GBP | 40,141,297 | – | (623,886) | (623,886) |
| | | | 880,103,621 | 10,598,250 | (3,420,760) | 7,177,490 |

| Counterparty | Unrealised gains £ | Unrealised losses £ | Net unrealised gains £ |
|---------------|-----------------------|------------------------|---------------------------|
| Global Reach | 1,070,672 | (132,659) | 938,013 |
| Investec Bank | 3,740,521 | (150,498) | 3,590,023 |
| Monex | 1,614,879 | (223,915) | 1,390,964 |
| Moneycorp | 1,053,554 | (925,653) | 127,901 |
| RBSI | 3,118,624 | (1,988,035) | 1,130,589 |
| | 10,598,250 | (3,420,760) | 7,177,490 |

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

The forward foreign exchange positions at the year end have various maturity dates ranging from 2 April 2020 to 28 February 2022 (2019: 8 April 2019 to 14 April 2020).

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

| | Year ended 31 March 2020 £ | Year ended 31 March 2019 £ |
|---|----------------------------------|----------------------------------|
| Net realised gains/(losses) on forward foreign exchange contracts during the year | 262,036 | (19,680,903) |
| Net unrealised losses on forward foreign exchange contracts during the year | (48,254,489) | (6,953,997) |
| Net losses on forward foreign exchange contracts during the year | (47,992,453) | (26,634,900) |

During the year, due to the weakness of Sterling, margin calls were made by certain of the Company's counterparties against the Company's loss-making forward foreign exchange positions. As at 31 March 2020, £24.7 million (2019: Nil) was held as collateral in margin accounts.

Notes to the financial statements

For the year ended 31 March 2020 continued

8. CASH AND CASH EQUIVALENTS

| | 31 March 2020 £ | 31 March 2019 £ |
|---|--------------------|--------------------|
| Cash held on call or overnight deposit accounts | 37,581,698 | 27,633,414 |
| | 37,581,698 | 27,633,414 |

Under the terms of its forward foreign exchange trading agreements with AFEX Markets plc, Global Reach Partners, Investec Bank (Channel Islands) Limited, Macquarie Bank Limited, Monex Europe, Royal Bank of Scotland International and TTT Moneycorp Limited, the Company may be required in certain circumstances to retain balances in collateral accounts representing the applicable margin on each facility. As at 31 March 2020, £24,716,033 (2019: £Nil) was held in collateral accounts.

9. INVESTMENT INCOME

| | Year ended 31 March 2020 £ | Year ended 31 March 2019 £ |
|--|----------------------------------|----------------------------------|
| Interest income on financial assets carried at amortised cost: | | |
| Cash and cash equivalents | 14 | 48,771 |
| Interest income on the Company's non-derivative financial assets at fair value through profit and loss | 115,453,935 | 106,668,371 |
| | 115,453,949 | 106,717,142 |

10. RELATED PARTIES AND OTHER MATERIAL CONTRACTS

DIRECTORS' FEES

Robert Jennings is entitled to a fee in remuneration for his services as Chairman of the Board of Directors at a rate payable of £66,800 per annum (increasing to £75,000 per annum with effect from 1 April 2020). The remaining Directors are entitled to a fee in remuneration for their services as Directors at a rate of £44,300 each per annum (unchanged with effect from 1 April 2020).

Jan Pethick, Jon Bridel and Sandra Platts are also each entitled to a fee of £7,000 per annum in respect of their roles as Chair of the Management Engagement Committee, Chair of the Risk Committee and Chair of the Audit and Remuneration Committees respectively (increasing to £10,000 per annum with effect from 1 April 2020).

Sandra Platts is entitled to an additional fee of £5,000 per annum for serving as the Senior Independent Director (increasing to £7,700 per annum with effect from 1 April 2020).

During the year, Robert Jennings, Jan Pethick, Jon Bridel and Sandra Platts each received a listing fee of £6,000 in connection with the Open Offer, Ordinary Share Placing and Offer for Subscription on 27 June 2019, which was subject to admission. Following a review of the Company's remuneration policy, the Directors determined that they would henceforth forego any such fees, and therefore no fee was paid in connection with the Open Offer, Ordinary Share Placing and Offer for Subscription on 3 March 2020.

10. RELATED PARTIES AND OTHER MATERIAL CONTRACTS CONTINUED

ORDINARY SHARES HELD BY RELATED PARTIES

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

| Name | 31 March 2020 | | 31 March 2019 | |
|--|---------------------------|--|---------------------------|--|
| | Number of Ordinary Shares | Percentage of Ordinary Shares in issue | Number of Ordinary Shares | Percentage of Ordinary Shares in issue |
| Robert Jennings (Chairman) (with other members of his family) | 242,666 | 0.01% | 240,000 | 0.02% |
| Jan Pethick (with his spouse) | 263,820 | 0.02% | 263,820 | 0.02% |
| Jon Bridel (with his spouse) | 10,452 | 0.00% | 10,452 | 0.00% |
| Sandra Platts (in a family Retirement Annuity Trust Scheme) | 26,776 | 0.00% | 19,073 | 0.00% |

During the year, Robert Jennings acquired 22,666 ordinary shares in the Open Offer, Placing and Offer for Subscription on 3 March 2020. A holding of 20,000 ordinary shares previously deemed to be a connected holding has been disaggregated where this is no longer the case.

During the year, Sandra Platts acquired 2,384 ordinary shares in the Open Offer, Placing and Offer for Subscription on 27 June 2019 and 5,319 ordinary shares in the Open Offer, Placing and Offer for Subscription on 3 March 2020.

As at 31 March 2020, the Investment Adviser held an aggregate of 3,263,680 ordinary shares (2019: 3,073,079 ordinary shares), which is 0.21% (2019: 0.28%) of the issued share capital.

As at 31 March 2020, the members of the Investment Adviser's founding team held an aggregate of 681,643 ordinary shares (2019: 681,643 ordinary shares), which is 0.04% (2019: 0.06%) of the issued share capital.

As at 31 March 2020, the Investment Manager held an aggregate of 50,000 ordinary shares (2019: 50,000 ordinary shares), which is 0.00% (2019: 0.00%) of the issued share capital.

TRANSACTIONS WITH INVESTMENT MANAGER AND INVESTMENT ADVISER

Investment Manager

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

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

The fee is subject to an annualised minimum of £80,000 and, with effect from 2 May 2017, was capped at £320,000 per annum, subject to an annual inflation-linked increase, payable monthly in arrears.

Notes to the financial statements

For the year ended 31 March 2020 continued

10. RELATED PARTIES AND OTHER MATERIAL CONTRACTS CONTINUED

TRANSACTIONS WITH INVESTMENT MANAGER AND INVESTMENT ADVISER CONTINUED

Investment Manager continued

During the year, the Investment Manager received a fee of £6,000 for services rendered in connection with the Open Offer, Placing and Offer for Subscription on 27 June 2019, a fee of £1,500 for services rendered in connection with the Placing of ordinary shares on 24 September 2019, and a fee of £6,000 for services rendered in connection with the Open Offer, Placing and Offer for Subscription on 3 March 2020.

The Investment Management agreement can be terminated by either party giving not less than 6 months written notice.

Investment Adviser

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

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

Prior to 1 September 2018, the Investment Adviser was entitled to receive from the Company a base fee calculated as follows:

- 0.5% per annum of the value of the listed debt securities owned by the Subsidiary; plus
- if the Company's NAV is less than £250 million, 0.9% per annum of the value of the Company's other investments (excluding listed debt securities and cash); plus
- if the Company's NAV is more than £250 million and less than £500 million, 0.8% per annum of the value of the Company's other investments (excluding listed debt securities and cash) not included above; plus
- if the Company's NAV is more than £500 million and less than £750 million, 0.7% per annum of the value of the Company's other investments (excluding listed debt securities and cash) not included above; plus
- if the Company's NAV is more than £750 million, 0.6% per annum of the value of the Company's other investments (excluding listed debt securities and cash) not included above.

All such fees are payable quarterly. With effect from 1 September 2018, 10% of the Investment Adviser's fee (prior to 1 September 2018: 25%) is applied in subscribing for ordinary shares in the Company, which the Investment Adviser shall retain with a three-year rolling lock-up (such that those ordinary shares may not be sold or otherwise disposed of by the Investment Adviser without the prior consent of the Company before the third anniversary of the date of issue of the relevant ordinary shares).

On 18 April 2019, the Company issued 177,165 ordinary shares to the Investment Adviser in relation to fees payable for the quarter ended 31 March 2019.

On 18 July 2019, the Company issued 200,477 ordinary shares to the Investment Adviser in relation to fees payable for the period ended 30 June 2019.

On 17 October 2019, the Company issued 225,522 ordinary shares to the Investment Adviser in relation to fees payable for the period ended 30 September 2019.

10. RELATED PARTIES AND OTHER MATERIAL CONTRACTS CONTINUED

TRANSACTIONS WITH INVESTMENT MANAGER AND INVESTMENT ADVISER CONTINUED

Investment Adviser continued

On 17 January 2020, the Company issued 235,293 ordinary shares to the Investment Adviser in relation to fees payable for the period ended 31 December 2019.

As at 31 March 2020, the Investment Adviser held 3,263,680 ordinary shares (2019: 3,073,079 ordinary shares) in the Company.

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

The Investment Advisory agreement can be terminated by either party giving not less than 6 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.

OTHER MATERIAL CONTRACTS

Administrator

With effect from 28 January 2015, Praxis Fund Services Limited (the "Administrator") was appointed as the Administrator. With effect from 1 June 2016, the Administrator is entitled to receive from the Company a base fee calculated as follows and payable monthly:

- if the Company's NAV is less than £300 million, 0.07% per annum of the value of the Company's NAV; plus
- if the Company's NAV is more than £300 million and less than £400 million, 0.05% per annum of the Company's NAV not included above; plus
- if the Company's NAV is more than £400 million, 0.04% per annum of the Company's NAV not included above.

The base fee is subject to a minimum of £65,000 applied on a monthly basis and is capped at £300,000 per annum. The Administrator is also entitled to a fee for company secretarial services based on time costs.

In addition, the Administrator received a fee of £10,500 for services rendered in connection with the Open Offer, Placing and Offer for Subscription on 27 June 2019, a fee of £3,500 for services rendered in connection with the Placing of ordinary shares on 24 September 2019, and a fee of £21,000 for services rendered in connection with the Open Offer, Placing and Offer for Subscription on 3 March 2020.

The Administration agreement can be terminated by either party giving not less than 90 days written notice.

Subsidiary Administrator

With effect from 28 January 2015, TMF Luxembourg S.A. (the "Subsidiary Administrator") was appointed as the administrator of the Subsidiary. With effect from 1 January 2020, the Subsidiary Administrator is entitled to receive an annual fee of €26,344 (with effect from 1 January 2019: €25,434 per annum, prior to 1 January 2019 €24,935) and, in addition, a fee for NAV reconciliation and reporting services based on time costs but capped at €6,150 per annum.

Notes to the financial statements

For the year ended 31 March 2020 continued

10. RELATED PARTIES AND OTHER MATERIAL CONTRACTS CONTINUED

OTHER MATERIAL CONTRACTS CONTINUED

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 amounts charged for the above-mentioned fees during the year ended 31 March 2020 and outstanding at 31 March 2020 are as follows:

| | Charge for the year £ | Amounts outstanding at 31 March 2020 £ |
|---------------------------------|-----------------------------|---|
| Year ended 31 March 2020 | | |
| Investment Adviser's fees | 10,165,841 | 2,599,692 |
| Administration fee | 425,066 | 15,972 |
| Investment Manager's fees | 344,933 | – |
| Directors' fees and expenses | 226,782 | – |
| Sub-administration fee* | 32,312 | 9,815 |
| Fees payable to the Custodian* | 681,282 | 209,716 |
| | 11,876,216 | 2,835,195 |
| Year ended 31 March 2019 | | |
| Investment Adviser's fees | 7,312,391 | 1,986,030 |
| Administration fee | 405,541 | 15,010 |
| Investment Manager's fees | 320,000 | – |
| Directors' fees and expenses | 216,601 | – |
| Sub-administration fee* | 32,852 | 10,683 |
| Fees payable to the Custodian* | 498,449 | 116,732 |
| | 8,785,834 | 2,128,455 |

* Includes expenses of 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 2020, this facility had not been utilised.

LOAN COLLATERAL

With effect from 18 December 2019, security for a revolving credit facility of £280 million (£200 million with effect from 14 May 2019, £150 million with effect from 9 August 2018) (see note 15) with the Royal Bank of Scotland International Limited was provided by, inter alia, a charge over the bank accounts of the Company, a charge over the shares in the Subsidiary held by the Company and a charge on the assets of the Subsidiary.

11. TAX STATUS

The Company is exempt from Guernsey income tax and is charged an annual exemption fee of £1,200 under The Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989.

12. SHARE CAPITAL

The Company's ordinary shares and C shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and C shares are recognised as a deduction in equity and are charged to the relevant share capital account, including the initial set up costs.

The Company undertakes that it shall ensure that its records and bank accounts are operated in such a way that the assets attributable to the ordinary shares and the C shares can be separately identified. On the conversion of C shares to ordinary shares, C Shareholders shall be allocated an appropriate number of ordinary shares, calculated by reference to the conversion ratio.

The authorised share capital of the Company is represented by an unlimited number of shares of nil par value, to which the following rights are attached:

- (a) **Dividends:** ordinary Shareholders and C Shareholders are entitled to receive, and participate in, any dividends or other distributions resolved to be distributed from their respective pools of assets in respect of any accounting period or other period, provided that no calls or other sums due by them to the Company are outstanding.
- (b) **Winding Up:** On a winding up, the ordinary Shareholders and C Shareholders shall be entitled to the surplus assets remaining in their respective pools of assets after payment of creditors.
- (c) **Voting:** ordinary Shareholders have the right to receive notice of and to attend, speak and vote at general meetings of the Company and each holder being present in person or by proxy shall upon a show of hands have one vote and upon a poll one vote in respect of every ordinary share held. C Shareholders have no right to attend or vote at any meeting of the Company, except that the consent of C Shareholders is required for any alteration to the Memorandum or Articles of the Company; for the passing of any resolution to wind up the Company; and for the variation or abrogation of the rights attached to the C shares.

The Company may acquire its own ordinary shares, up to a maximum number of 14.99 per cent. 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 2020 Ordinary shares Number | 31 March 2019 Ordinary shares Number |
|--|--|--|
| Share capital at the beginning of the year | 1,060,975,849 | 748,315,757 |
| Share capital issued and fully paid | 593,695,599 | 312,660,092 |
| Total share capital at the end of the year | 1,654,671,448 | 1,060,975,849 |

Notes to the financial statements

For the year ended 31 March 2020 continued

12. SHARE CAPITAL CONTINUED

ISSUED SHARE CAPITAL CONTINUED

Ordinary Shares continued

| | 31 March 2020 Ordinary shares £ | 31 March 2019 Ordinary shares £ |
|--|---------------------------------------|---------------------------------------|
| Share capital at the beginning of the year | 1,072,031,030 | 746,867,128 |
| Share capital issued and fully paid | 655,705,218 | 329,991,907 |
| Share issue costs | (8,670,739) | (4,828,005) |
| Total share capital at the end of the year | 1,719,065,509 | 1,072,031,030 |

On 27 June 2019, the Company issued 200,000,000 ordinary shares at an issue price of 108.0p, of which 127,505,908 ordinary shares were issued pursuant to an Open Offer (including the Excess Application Facility) and 72,494,092 ordinary shares were issued pursuant to a Placing and Offer for Subscription.

On 24 September 2019, the Company issued 125,000,000 ordinary shares through a Placing of ordinary shares at an issue price of 111.0p per share.

On 3 March 2020, the Company issued 267,857,142 ordinary shares at an issue price of 112.0p, of which 184,908,573 ordinary shares were issued pursuant to an Open Offer (including the Excess Application Facility) and 82,948,569 ordinary shares were issued pursuant to a Placing and Offer for Subscription.

During the year, 838,457 ordinary shares have been issued to the Investment Adviser in relation to fees payable for the period from 1 January 2019 to 31 December 2019, at an average issue price of 113.9p per ordinary share (see note 10). Subsequent to the year end, the Investment Adviser acquired 252,347 ordinary shares at a price of 103.0p per ordinary share in relation to fees payable for the quarter ended 31 March 2020.

13. BASIC AND DILUTED EARNINGS PER SHARE

| | Year ended 31 March 2020 | Year ended 31 March 2019 |
|--|-----------------------------|-----------------------------|
| (Loss)/profit for the financial year | £(65,361,405) | £69,170,832 |
| Weighted average number of ordinary shares | 1,298,389,127 | 925,240,797 |
| Basic and diluted (loss)/earnings per ordinary share | (5.03)p | 7.48p |

The weighted average number of ordinary shares is based on the number of ordinary shares in issue during the year under review, as detailed in note 12.

There was no dilutive effect for potential ordinary shares for the year ended 31 March 2020.

14. TRADE AND OTHER RECEIVABLES

| | 31 March 2020 £ | 31 March 2019 £ |
|-------------------------|--------------------|--------------------|
| VFN interest receivable | 88,878,671 | 59,789,705 |
| Prepaid finance costs | 1,074,022 | 716,679 |
| Other prepaid expenses | 55,641 | 16,097 |
| | 90,008,334 | 60,522,481 |

15. LOAN PAYABLE

On 6 December 2017, the Company executed a 36-month £100 million multi-currency revolving credit facility ("RCF") with the Royal Bank of Scotland International Limited ("RBSI") as lead arranger. On 9 August 2018, the Company exercised a £50 million incremental accordion tranche of the RCF, with the same maturity date as the initial RCF. During the year, the facility was extended by a further £130 million to £280 million and the maturity date extended by a year to 6 December 2021. The proceeds of the loan are to be used in or towards the making of investments in accordance with the Company's investment policy. The loan is secured by, inter alia, a charge over the bank accounts of the Company, a charge over the shares in the Subsidiary held by the Company and a charge on the assets of the Subsidiary. Should the value of the underlying assets held in the Subsidiary fall below a certain level, further margin calls may be made by RBSI, however no margin calls were made during the year. Interest on the loan was charged at a rate of LIBOR (or EURIBOR for any loan denominated in Euro) plus 2.1% per annum. Loan interest of £5,262,292 (2019: £2,713,261) and upfront, facility and break fees of £589,471 (2019: £459,396) have been incurred on the loan during the year.

| | For the year ended 31 March 2020 | | |
|-------------------------------|----------------------------------|---------------------|-------------------|
| | GBP facility GBP | USD facility GBP | Total GBP |
| Balance brought forward | 60,000,000 | 53,875,164 | 113,875,164 |
| Drawdowns | 373,305,000 | 77,006,769 | 450,311,769 |
| Repayments | (398,305,000) | (132,944,054) | (531,249,054) |
| Foreign exchange revaluations | – | 2,062,121 | 2,062,121 |
| Balance carried forward | 35,000,000 | – | 35,000,000 |

| | For the year ended 31 March 2019 | | |
|-------------------------------|----------------------------------|---------------------|--------------------|
| | GBP facility GBP | USD facility GBP | Total GBP |
| Balance brought forward | – | 39,238,068 | 39,238,068 |
| Drawdowns | 187,532,967 | 72,716,647 | 260,249,614 |
| Repayments | (127,532,967) | (59,197,105) | (186,730,072) |
| Foreign exchange revaluations | – | 1,117,554 | 1,117,554 |
| Balance carried forward | 60,000,000 | 53,875,164 | 113,875,164 |

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

Notes to the financial statements

For the year ended 31 March 2020 continued

16. TRADE AND OTHER PAYABLES

| | 31 March 2020 £ | 31 March 2019 £ |
|---------------------------------|--------------------|--------------------|
| Investment Advisory fee payable | 2,599,692 | 1,986,030 |
| Loan interest payable | 145,605 | 155,748 |
| Other payables | 394,897 | 222,840 |
| | 3,140,194 | 2,364,618 |

17. COMMITMENTS

As at 31 March 2020, £86.0 million (2019: £98.7 million) was committed to new or existing investments. These commitments will be settled from the existing cash reserves of the Company and the Subsidiary and through drawdowns from the Company's revolving credit facility.

18. SUBSEQUENT EVENTS

On 16 April 2020, the Company declared an interim dividend of 1.5625p per ordinary share in respect of the quarter ended 31 March 2020. The dividend was paid on 22 May 2020.

On 20 April 2020, the Investment Adviser acquired 252,347 ordinary shares at a price of 103.0p per share in relation to fees payable for the quarter ended 31 March 2020.

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

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Robert Jennings, CBE (Independent non-executive Chairman)
Sandra Platts (Senior Independent non-executive Director)
Jan Pethick (Independent non-executive Director)
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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 return

Total NAV return is a calculation showing how the NAV 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 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.

| | | For the year ended 31 March 2020 | For the period from 1 April 2019 to 28 February 2020 |
|---|-----|-------------------------------------|--|
| Opening NAV per share | | 103.41p | 103.41p |
| Closing NAV per share | (a) | 96.69p | 106.36p |
| Dividends paid | (b) | 6.1875p | 6.1875p |
| Weighted average NAV per share on month end ex-dividend | (c) | 103.19p | 103.19p |
| Dividend adjustment factor ($d = b / c + 1$) | (d) | 1.0600 | 1.0600 |
| Adjusted closing NAV per share ($e = a \times d$) | (e) | 102.49p | 112.74p |
| Total NAV return | | (0.9)% | 9.0% |

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 2020 | | | Year ended 31 March 2019 | | |
|--|--------------------------|---------------------|---------------|--------------------------|---------------------|-------------|
| | The Company £ | The Subsidiary £ | Total £ | The Company £ | The Subsidiary £ | Total £ |
| Total expenses | 18,993,666 | 655,453 | 19,649,119 | 12,952,943 | 391,096 | 13,344,039 |
| Non-recurring expenses | (6,315,226) | – | (6,315,226) | (3,642,374) | – | (3,642,374) |
| Total ongoing expenses | 12,678,440 | 655,453 | 13,333,893 | 9,310,569 | 391,096 | 9,701,665 |
| Average NAV | | | 1,385,345,942 | | | 951,775,752 |
| Ongoing charges ratio (using AIC methodology) | | | 0.96% | | | 1.02% |



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