

# TwentyFour Select Monthly Income Fund Limited

## **Annual Report and Audited Financial Statements**

For the year ended 30 September 2018



# TwentyFour Select Monthly Income Fund Limited

---

## CONTENTS

Corporate Information	2
Summary Information	3
Chairperson's Statement	5
Portfolio Manager's Report	6
Top Twenty Holdings	10
Board Members	11
Disclosure of Directorships in Public Companies Listed on Recognised Stock Exchanges	12
Directors' Report	13
Statement of Directors' Responsibilities	26
Directors' Remuneration Report	28
Audit and Risk Committee Report	30
Alternative Investment Manager's Report	33
Depository Statement	35
Independent Auditor's Report	36
Financial Statements	
Statement of Comprehensive Income	41
Statement of Financial Position	42
Statement of Changes in Equity	43
Statement of Cash Flows	44
Notes to the Financial Statements	45

# TwentyFour Select Monthly Income Fund Limited

---

## CORPORATE INFORMATION

### Directors

Claire Whittet (Chair)  
Christopher Legge  
Ian Martin

### Receiving Agent

Computershare Investor Services PLC  
The Pavillions  
Bridgewater Road  
Bristol, BS13 8AE

### Registered Office

PO Box 255  
Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey, GY1 3QL

### UK Legal Advisers to the Company

Eversheds LLP  
One Wood Street  
London, EC2V 7WS

### Portfolio Manager

TwentyFour Asset Management LLP  
8th Floor The Monument Building  
11 Monument Street  
London, EC3R 8AF

### Guernsey Legal Advisers to the Company

Carey Olsen  
Carey House  
Les Banques  
St Peter Port  
Guernsey, GY1 4BZ

### Alternative Investment Fund Manager

Maitland Institutional Services Limited  
Springfield Lodge  
Colchester Road  
Chelmsford, CM2 5PW

### Independent Auditor

PricewaterhouseCoopers CI LLP  
PO Box 321  
Royal Bank Place  
Gategny Esplanade  
St Peter Port  
Guernsey, GY1 4ND

### Custodian, Principal Banker and Depositary

Northern Trust (Guernsey) Limited  
PO Box 71  
Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey, GY1 3DA

### Registrar

Computershare Investor Services (Guernsey) Limited  
1st Floor  
Tudor House  
Le Bordage  
St Peter Port  
Guernsey, GY1 1DB

### Administrator and Company Secretary

Northern Trust International Fund Administration Services (Guernsey) Limited  
PO Box 255  
Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey, GY1 3QL

### Broker and Financial Adviser

Numis Securities Limited  
The London Stock Exchange Building  
10 Paternoster Square  
London, EC4M 7LT

# TwentyFour Select Monthly Income Fund Limited

---

## SUMMARY INFORMATION

### The Company

TwentyFour Select Monthly Income Fund Limited (the “Company”) was incorporated with limited liability in Guernsey, as a closed-ended investment company on 12 February 2014. The Company’s Shares were listed with a Premium Listing on the Official List of the UK Listing Authority and admitted to trading on the Main Market of the London Stock Exchange (“LSE”) on 10 March 2014.

### Investment Objective and Investment Policy

The Company’s investment objective is to generate attractive risk adjusted returns, principally through income distributions.

The Company’s investment policy is to invest in a diversified portfolio of credit securities.

The portfolio can be comprised of any category of credit security, including, without prejudice to the generality of the foregoing, bank capital, corporate bonds, high yield bonds, leveraged loans, payment-in kind notes and asset backed securities. The portfolio will include securities of a less liquid nature. The portfolio will be dynamically managed by TwentyFour Asset Management LLP (the “Portfolio Manager”) and, in particular, will not be subject to any geographical restrictions.

The Company maintains a portfolio diversified by issuer; the portfolio comprises at least 50 Credit Securities. No more than 5% of the portfolio value will be invested in any single Credit Security or issuer of Credit Securities, tested at the time of making or adding to an investment in the relevant Credit Security. Uninvested cash, surplus capital or assets may be invested on a temporary basis in:

- Cash or cash equivalents, money market instruments, bonds, commercial paper or other debt obligations with banks or other counterparties having a “single A” or higher credit rating as determined by any internationally recognised rating agency which, may or may not be registered in the EU; and
- Any “government and public securities” as defined for the purposes of the Financial Conduct Authority (the “FCA”) Rules.

Efficient portfolio management techniques are employed by the Company, including currency and interest rate hedging and the use of derivatives to manage key risks such as interest rate sensitivity and to mitigate market volatility. The Company’s currency hedging policy will only be used for efficient portfolio management and not to attempt to enhance investment returns.

The Company will not employ gearing or derivatives for investment purposes. The Company may use borrowing for short-term liquidity purposes, which could be achieved through its loan facility or other types of collateralised borrowing instruments including repurchase transactions and stock lending. The Articles restrict the borrowings of the Company to 10% of the Company’s Net Asset Value (“NAV”) at the time of drawdown.

At launch the Company had a target net total return on the original issue price of between 8% and 10% per annum. This comprised a target dividend payment of 6p and a target capital return of 2p-4p both based on the original issue amount of 100p. There is no guarantee that this can or will be achieved, particularly given the current low interest rate environment. As such the total return generated has been lower than initially anticipated, although the 6p dividend per annum has consistently been met and the Portfolio Manager is confident that this dividend target will be maintained in the current year. Refer to note 19 to the Financial Statements for details of the Company’s dividend policy.

In accordance with the Listing Rules, the Company can only make a material change to its investment policy with the approval of its Shareholders by Ordinary Resolution.



# TwentyFour Select Monthly Income Fund Limited

---

## SUMMARY INFORMATION continued

### Shareholder Information

Maitland Institutional Services Limited ("Maitland") is responsible for calculating the NAV per share of the Company. Maitland delegated this responsibility to Northern Trust International Fund Administration Services (Guernsey) Limited (the "Administrator"). However Maitland still performs an oversight function. The unaudited NAV per Ordinary Share will be calculated as at the close of business on every Wednesday that is also a business day and the last business day of every month and will be announced by a Regulatory Information Service the following business day.

### Financial Highlights

	30.09.18	30.09.17
Total Net Assets	£169,743,090	£155,207,957
Net Asset Value per Share	93.17p	96.44p
Share price	97.00p	99.50p
Premium to NAV	4.11%	3.17%
Dividends declared during the year	6.55p	6.56p
Dividends paid during the year	6.56p	6.85p

As at 9 January 2019, the premium had moved to 2.36%. The estimated NAV per share and share price stood at 89.00p and 91.10p, respectively.

### Ongoing Charges

Ongoing charges for the year ended 30 September 2018 of 1.18% (30 September 2017: 1.20%) have been calculated in accordance with the Association of Investment Companies (the "AIC") recommended methodology.

# TwentyFour Select Monthly Income Fund Limited

---

## CHAIRPERSON'S STATEMENT

For the year ended 30 September 2018

The twelve-month period ending 30 September 2018 saw the credit environment change dramatically; from one that was very supportive of risk assets, to one with frequent headwinds for risk assets, but also one that was unsuited to holding risk-free, interest rate products.

The spread widening environment that developed in the second half of the period was helpful in providing more attractive investment opportunities, and this allowed the portfolio managers ("PMs") to accept the issue of more shares in comparison to the previous period. Consequently, the number of shares in issue increased from 160,929,151 to 182,179,151 via taps issues during the year; however, due to the spread widening, the Company's NAV per Share decreased by 3.39% over the period (excluding dividends paid).

As mentioned above, market conditions were very supportive for continued spread tightening in the 1st quarter of the period; however, as US inflation moved higher in January 2018, interest rate markets became concerned that the Federal Reserve ("Fed") would continue to increase the Federal Funds rate. In response, Treasury yields spiked aggressively higher, with the 10yr yield rising from 2.4% at the start of the year to over 3% by the end of April. This also spooked credit and equity markets, causing correlations to break down, with volatility elevated for most financial assets. As the year progressed, headwinds for risk assets continued to appear, with the Trump administration aggressively threatening higher tariffs on imports into the US for many of its trading partners and targeted Chinese imports in particular.

In addition to the heightening of geo-political risks, which put global growth at risk, the strong US Dollar also negatively impacted Emerging Markets, which sold off aggressively, causing contagion into developed markets. European assets also suffered from the fallout of the Italian general election, where an anti-establishment coalition was formed, and from the weak coalition government in Germany, while the ongoing Brexit negotiations pressurised sterling credit markets.

The PMs and the Company's Board continue to adhere to a strict discipline of only accepting new share issuance to meet investor demand when there are suitable investment opportunities in the marketplace. For the period in question, credit conditions were more volatile offering the PMs better opportunities to source attractive assets; however, although new issuance was higher than the previous period, the PMs remained committed to maintaining the credit quality of the Company and not over reaching for risk.

Mark-to-market performance is expected to remain under pressure, especially as the Fed remains on a rate hiking course, geopolitical risks remain elevated, and the European and UK political environment remains fragile. However, the PMs are comfortable that the portfolio is well positioned for this point in the cycle, and well protected from rising rates, with an interest rate duration currently of just 2.8 years.

During the reporting period new regulations required all investment companies to issue a Key Information Document (KID). As with many new regulations there is a settling in period and we welcome the efforts of the Association of Investment Companies to bring more clarity to these documents.

As with previous periods the quarterly tender facility has operated very efficiently, and the small numbers of tendered shares have always been placed at a premium. The tender facility is there to provide comfort on liquidity and it continues to be surprising that small tenders occur despite our shares trading at a constant premium.

Claire Whittet  
Chair  
14 January 2019

## PORTFOLIO MANAGER'S REPORT

For the year ended 30 September 2018

### Economic Background

Sentiment in the last quarter of 2017 saw a continuation of risk markets being supported by coordinated global growth, US fiscal stimulus and a strong technical backdrop to markets. In the US, the Federal Open Market Committee ("FOMC") raised Fed funds by 25bps close to the year-end, in what was a highly anticipated move and therefore did little to move markets. Meanwhile President Trump finally saw the Senate pass his long awaited fiscal stimulus package, which gave a boost of longevity to the credit cycle, but also added some volatility to US Treasury markets as the reforms were considered to have an inflationary bias.

In Europe, the European Central Bank ("ECB") announced another €30bn per month taper from its quantitative easing ("QE") programme, although QE was extended until at least September 2018 and it was confirmed that euro interest rates would also remain low until then. Draghi also followed up with dovish comments regarding inflation later in the quarter. Elsewhere in the Eurozone, the independence referendum in Catalonia resulted in the Spanish government arranging a snap election in the region, which failed to produce a positive result either way but was viewed by the market as a favourable outcome as it kept Spain unified. In the key Eurozone election in Germany Angela Merkel struck a deal with the socialists and formed a weak, "Jamaica coalition".

In early November, as expected, the Bank of England's Monetary Policy Committee ("MPC") reversed the emergency rate cut that followed the UK referendum, but Governor Carney surprised markets, saying that "two more 25bps rate hikes will be needed over the next three years". More stabilising were the results from the Bank of England ("BOE") bank stress tests, which despite being very punitive, saw all 7-participating banks and building societies passing comfortably. As expected, Carney confirmed the UK Countercyclical Capital Buffer would be increased from 0.5% to 1%.

The start to 2018 continued in the same strong vein which enabled credit spreads across all sectors to tighten further. However, this was brought to an abrupt end as higher than expected US average hourly earnings reared the spectre of inflation concerns, resulting in a sharp widening of credit spreads. Economic data continued to be strong in January and the Q4 earnings season kicked off with a decent tone aided by a favourable global picture of upgrades versus downgrades in the year-to-date.

However, the US wage data then set a weak tone for the risk markets and February was a turbulent month. In the US Jerome Powell was sworn in as the new Fed chairman and expressed his belief that the economy was not showing signs of overheating, but there was a need for gradual tightening. In addition, in what is becoming a theme of his presidency, President Trump announced a raft of trade tariffs, including steel, aluminium and autos, which ultimately resulted in the resignation of White House chief economic advisor, Gary Cohn and fuelled speculation of a full scale trade war. Tech stocks added to the malaise with a raft of negative stories including weakness in Facebook shares due to user privacy concern.

In Europe, the quarter ended in uncertainty as the Italian election, on March 4, proved to be a disaster for former prime ministers Silvio Berlusconi and Matteo Renzi, opening the door for two anti-establishment and Euro-sceptic parties; Five Star Movement (led by Luigi Di Maio) and League (led by Matteo Salvini).

In the UK, the Office for National Statistics ("ONS") revised down its estimate for UK growth, although comments from Mark Carney suggested that domestic interest rates may go up faster and higher than markets have been anticipating. However, this was quickly replaced in April, when he implied that markets should not necessarily expect a May rate hike, which returned support to gilts with the market probability of a May hike dropping from 95% to below 20% at month-end.

# TwentyFour Select Monthly Income Fund Limited

---

## PORTFOLIO MANAGER'S REPORT continued

For the year ended 30 September 2018

The US Treasury market volatility remained high at the start of Q2, with yields selling off due to a combination of strong earnings, headline and core Consumer Price Index ("CPI") data remaining above 2%, and some softening of the Trump administration rhetoric regarding trade tariffs. On the international stage, the leaders of North and South Korea met for the first time in over a decade and held talks to denuclearise the peninsula and potentially bring a formal end to the Korean War.

Despite what was a fairly strong earnings season, investor sentiment felt weak throughout May and as a consequence credit spreads drifted wider, and the treasury curve continued its "bear flattening", closing the month at a mere 42.5bps, after hitting 77bps in January.

In Italy, the Five Star and League continued their efforts to form a coalition government, which seemed on track until the President, Sergio Mattarella, refused the coalition's choice of finance minister, Paolo Savona, on the grounds of him being too Eurosceptic. With the coalition partners threatening another election, investors sold Italian Government Bonds ("BTPs") heavily and contagion was felt across all sectors - and despite a compromise being found and a government being put in place, Italian volatility continued through the summer and early autumn. In addition, the Spanish parliament announced a vote of no-confidence in the Prime Minister, Mariano Rajoy, who was ultimately replaced by socialist leader, Pedro Sanchez.

Elsewhere, emerging markets continued to be under pressure most of the year due to US\$ strength, while idiosyncratic risks in Turkey saw the lira decline 16% over the first 6 months of 2018, versus the US\$ as inflation soared to 10.85%, finally forcing the central bank to break ranks with President Erdogan and hike rates by 300bps. Erdogan won the presidential election late in the year with 52.5% of the vote, giving concerns that further restriction on the press and domestic judiciary would be imposed.

Despite the volatility, the Fed hiked rates for the 7th time in June and added an additional rate hike for 2018 to the dot plots, which now have 2 hikes in 2018 and 4 in 2019. While this should have been negative for treasuries, the US announced a raft of tariffs on Chinese products provoking a similar reaction from China, which kept long dated treasuries well bid. With this backdrop the market tone was understandably weak despite economic data that continued to be supportive, albeit a little mixed.

The ECB expressed a more dovish tone and extended QE to the end of 2018, cutting the Eur30bn of stimulus to €15bn as from the end of September, however, president Mario Draghi also emphasised that rates would remain unchanged until "at least through the summer of 2019". In the UK, the BOE, as expected, kept rates on hold, however chief economist, Andy Haldane, surprisingly voted in favour of a rate hike, taking the voting to 6-3 still in favour of holding, but putting the August meeting back in play.

Despite weak markets, economic data remained robust; in the US, ISM Manufacturing Index ("ISM") data remained very strong, the unemployment rate fell to 3.8%, inflation remained above 2%, while in the Eurozone and UK, the weaker, weather impacted, data from Q1 and early Q2, receded and the economies were on firm footings.

The July earnings seasons, despite some negative trade tariffs impacts, were very positive which provided confidence in the ongoing economic recovery and support to risk assets. Central bank activity was fairly muted and bank lending surveys in the UK and Europe showed commercial banks continuing to support the economies with very little in the way of tightening. In the US, Q2 Gross Domestic Product ("GDP") came in at 4.1% and inflation continued to be muted despite the continuous gradual improvement in the jobs data. In addition, a constructive meeting between the US and Europe on trade tariffs helped credit risk sentiment.

## PORTFOLIO MANAGER'S REPORT continued

For the year ended 30 September 2018

Emerging Markets ("EM") then took centre stage in August, when in Turkey the interference by President Erdogan in the Central Bank policy and the reluctance to raise rates, saw a huge sell-off in the Turkish Lira, with the exchange rate spiking to over 7 TRY:USD, from 3.5 a year ago. These moves eventually forced the Central Bank to hike the domestic base rate by 725bps to 24% which helped halt the slide in the lira, while the IMF released a \$50bn loan to Argentina to shore up the economy and stem investor out-flows, helping to improve the tone in EM during September.

As markets restarted following the summer break, there was a notable pick up in market activity but all proceedings continued to be dominated by the geopolitical events that have played havoc with investor sentiment for most of 2018.

In Italy, volatility continued when the coalition leaders back-tracked on comments suggesting their budget would have a deficit to GDP target below 2% and instead came out with a 2.4% deficit, for a 3-year period. The EC response was immediate with Jean Claude Juncker drawing a parallel with Greece (2011) and the subsequent sell-off in BTPs was severe with the 10yr bonds falling approximately 4.5 points over the month-end.

In the US, the Fed hiked again, which took the upper band to 2.25%. A further hike occurred in December, raising the upper band to 2.50%, and they remain on track for a further 1-2 hikes in 2019. The key 2-10s curve closed the month unchanged at 23.5bps although it did test 20bps mid-month, which is the flattest it has been in over a decade.

In the ongoing trade tariff drama, the twists and turns keep on coming and September was no different. President Trump announced a breakthrough with both Canada and Mexico, which appears to lead the way to a workable agreement that was hyped as being a possible replacement for the North American Free Trade Agreement ("NAFTA"), which has been so despised by the Trump administration. Likewise, an announcement was made that South Korea had conceded on key trade barriers; but there was still no major breakthrough between the US and China which remains firmly in the spotlight and seen as a key catalyst for the continuation of global coordinated growth.

### Performance Review

Investor sentiment remained very positive for the early part of the financial year; however, the spike in US wage data in January 2018, and subsequent sell off in treasury yields, caused correlations to breakdown down and since then, a combination of geopolitical risks, flattening yield curve and a hiking Fed, Emerging Market volatility, Euro political risks and Brexit risks in the UK have all contributed to stiff headwinds for credit markets.

The headwinds did provide a number of opportunities for the portfolio managers, particularly in the Collateralised Loan Obligation ("CLO") and Bank sectors, while the widening in Insurance bonds, especially in the long dated Restricted Tier 1 bonds issued in the buyout markets in 2017, also provided the PMs with new places to look for value.

The net decline seen in total comprehensive income, for the year to 30 September 2018, was due to the fall in the mark-to-market valuation of the Company's assets over that 12 month period. As spreads widened on the assets, as referenced in the Chairperson's Statement, the price was pushed lower and reflected the general risk off sentiment that has prevailed for most of 2018.

Over the same period, from 30 September 2017 to 30 September 2018, the price on the ICE BofAML European High Yield Index fell by over 3 points, the price on the ICE BofAML Sterling High Yield Index fell by almost 4 points and the price of the ICE BofAML Contingent Capital Index fell by almost 5 points. By comparison, the NAV of the Company declined by just over 3 points, mostly due to the PMs focusing on shorter duration assets, in comparison to the longer dated indices.

The total return for the year of 3.47% (NAV per Share, including dividends paid), with positive contributions from all sectors, is very pleasing in the context of a very difficult 2018 for credit markets. By comparison, the total return for the Euro High Yield ("HY") market is 0.90%, GBP HY has returned 2.65% and the Contingent Convertible ("CoCo") bond index has returned 1.50%.

## PORTFOLIO MANAGER'S REPORT continued

For the year ended 30 September 2018

As mentioned in previous reports we remain part of the Novo Banco Note group. This represents a very small part of our portfolio and there were no updates during the reporting period.

### Foreign Exchange Accounting

The Company's policy is to hedge foreign exchange currency risk; however the company does not formally designate the hedges or adopt hedge accounting under IAS39. Any movements in foreign exchange rates are monitored daily and the hedge is adjusted when necessary to ensure that currency exposure remains within strict limits.

The net foreign currency gains on the portfolio (recorded within net (loss)/gain on financial assets at fair value through profit or loss) and the net foreign currency losses on the forward currency contracts (included within net foreign currency (loss)/gain) are recognised in accordance with the hedging policy and IFRS, within the Statement of Comprehensive Income.

### Investment Outlook

The Company was established to take advantage of the liquidity premium that exists in the non-government sectors of the fixed income universe. As such, when necessary, the PMs may determine it to be prudent to manage excessive duration risk with the use of interest rate swap derivatives, but with the natural duration of the Company's securities currently below 3yrs there are currently no hedges being applied.

The PMs consider the portfolio to be well positioned even as the credit cycle ages and strategists are favouring a base case of mid-2020 for the next US recession. The Company was designed to "look through" market volatility, unless there was a big event such as the UK referendum on EU membership, and the PMs have allowed the bonds to roll down the curve towards maturity to protect the Company, and the credit spread duration is relatively short at 3.6years.

Since the Company's launch in early 2014, the PMs have favoured exposure to CLOs and subordinated bank debt. Both sectors have performed well over the period being reported on, considering the general market sentiment that prevailed, and the PMs still recognise the relative value imbedded in these sectors compared to their peers in the wider fixed income spectrum. As such, these two sectors are expected to remain the favoured allocations over the medium term.

TwentyFour Asset Management LLP  
14 January 2019

# TwentyFour Select Monthly Income Fund Limited

## TOP TWENTY HOLDINGS

As at 30 September 2018

	Nominal/ Shares	Credit Security Sector	Fair Value * £	Percentage of Net Asset Value
Nationwide Bldg Society 10.25 29/06/2049	40,960	Banks	6,169,204	3.63
Opium Three MEZZ 25/10/2053	4,200,000	ABS	4,200,000	2.47
Shawbrook Group 7.875 31/12/2049	4,070,000	Banks	3,825,739	2.25
Coventry Bldg Society 6.375 29/12/2049	3,540,000	Banks	3,617,225	2.13
Santander UK	2,000,000	Banks	3,109,810	1.83
Bracken Midco1 8.875 15/10/2023	2,960,000	High Yield - European	2,952,567	1.74
Aldermore Group 11.875 31/12/2049	2,700,000	Banks	2,854,969	1.68
Arbour Clo 2 15/05/2030	3,000,000	ABS	2,675,801	1.58
Banco de Sabadell 6.5 31/12/2049	2,800,000	Banks	2,523,214	1.49
Barclays PLC 7.875 31/12/2049	2,365,000	Banks	2,507,510	1.48
Capital Bridging Finance 1 MEZZ 12/11/2018	2,500,000	ABS	2,500,000	1.47
Phoenix Group 5.75 31/12/2049	2,780,000	Insurance	2,456,825	1.45
SC Germany Consumer 2015-1 E 13/12/2028	2,500,000	ABS	2,393,197	1.41
St Pauls Clo 25/04/2030	2,835,000	ABS	2,360,965	1.39
Paragon Group of Companies 7.25 09/09/2026	2,200,000	Banks	2,353,934	1.39
Societe Generale 7.375 31/12/2049	2,960,000	Banks	2,346,459	1.38
Onesavings Bank 9.125 31/12/2049	2,200,000	Banks	2,284,343	1.35
Cabot Financial 7.50 01/10/2023	2,240,000	High Yield - European	2,195,597	1.29
Banco Bilbao Vizcaya Argentaria 8.875 29/12/2049	2,200,000	Banks	2,195,387	1.29
Avoca Clo 6.5 15/10/2030	2,500,000	ABS	2,100,576	1.24
Total			57,623,322	33.94

\* 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.

The full portfolio listing as at 30 September 2018 can be obtained from the Administrator on request.

# TwentyFour Select Monthly Income Fund Limited

---

## BOARD MEMBERS

Biographical details of the Directors are as follows:

### **Claire Whittet - (Chair) (age 63)**

Ms Whittet is a resident of Guernsey and has 40 years' experience in the banking industry. She joined Rothschild Bank International Ltd in 2003 as a Director and was latterly Managing Director and Co-Head before becoming a Non-Executive Director on her retirement in 2016. She began her career at the Bank of Scotland where she was for 19 years in a variety of personal and corporate finance roles. Subsequently, Ms Whittet joined Bank of Bermuda and was Global Head of Private Client Credit before joining Rothschild. Ms Whittet holds a number of Non-Executive Directorships.

Ms Whittet holds an MA from Edinburgh University, is a member of the Chartered Institute of Bankers in Scotland, a member of the Chartered Insurance Institute, a Chartered Banker, a member of the Institute of Directors and holds the Institute of Directors Diploma in Company Direction. Ms Whittet was appointed to the Board on 12 February 2014.

### **Christopher F. L. Legge - (Non-executive Director) (age 63)**

Mr Legge is a Guernsey resident and worked for Ernst & Young in Guernsey from 1983 to 2003. Having joined the firm as an audit manager in 1983, he was appointed a partner in 1986 and managing partner in 1998. From 1990 to 1998, he was head of Audit and Accountancy and was responsible for the audits of a number of banking, insurance, investment fund, property fund and other financial services clients. He also had responsibility for the firm's training, quality control and compliance functions. He was appointed managing partner for the Channel Islands region in 2000 and merged the business with Ernst & Young LLP in the United Kingdom. He retired from Ernst & Young in 2003.

Mr Legge currently holds a number of Non-Executive Directorships in the financial services sector and also chairs the Audit Committees of several UK listed companies. He is an FCA and holds a BA (Hons) in Economics from the University of Manchester. Mr Legge was appointed to the Board on 12 February 2014.

### **Ian Martin - (Non-executive Director) (age 55)**

Mr Martin has over 30 years' experience in finance gathered in a variety of multi asset investment focused roles in the UK, Hong Kong, Switzerland and Uruguay. More recently he was the CIO and Head of Asset Management and Research at Lloyds Bank in Geneva and then Head of Bespoke Portfolio Management and Advisory for key clients in UBP Bank in Geneva. Previous roles have included senior roles in equity derivatives and trading as well as CIO and Managing Director of a Fund of Hedge funds company in the UK. Currently he is a Director of Bedlam Family Office. Mr Martin was appointed to the Board on 15 July 2014.



# TwentyFour Select Monthly Income Fund Limited

---

## DISCLOSURE OF DIRECTORSHIPS IN PUBLIC COMPANIES LISTED ON RECOGNISED EXCHANGES

The following summarises the Directors' directorships in other public listed companies:

Company Name	Stock Exchange
<b>Claire Whittet (Chair)</b>	
BH Macro Limited	London
Eurocastle Investment Limited	Amsterdam
International Public Partnerships Limited	London
Riverstone Energy Limited	London
Third Point Offshore Investors Limited	London
<b>Christopher Legge</b>	
Ashmore Global Opportunities Limited	London
John Laing Environmental Assets Group Limited	London
Sherborne Investors (Guernsey) B Limited	London
Sherborne Investors (Guernsey) C Limited	London
Third Point Offshore Investors Limited	London
NB Distressed Debt Investment Fund Limited	London

# TwentyFour Select Monthly Income Fund Limited

---

## DIRECTORS' REPORT

The Directors present their Annual Report and Audited Financial Statements for the year ended 30 September 2018.

### Business Review

#### *The Company*

TwentyFour Select Monthly Income Fund Limited (the "Company") was incorporated with limited liability in Guernsey, as a closed-ended investment company on 12 February 2014. The Company's Shares were listed with a Premium Listing on the Official List of the UK Listing Authority and admitted to trading on the Main Market of the LSE on 10 March 2014.

#### *Investment Objective and Policy*

The investment objective and policy is set out in the Summary Information on page 3.

#### *Discount/Premium to Net Asset Value*

The Board monitors and manages the level of the share price discount/premium to NAV. In managing this, the Company can operate a share buyback facility whereby it may purchase, subject to various terms as set out in its Articles and in accordance with The Companies (Guernsey) Law, 2008, up to 14.99% of the Company's Ordinary Redeemable Shares in issue immediately following Admission for trading in the LSE.

The Company also offers investors a Quarterly Tender, contingent on certain factors, to provide Shareholders with a quarterly opportunity to submit Ordinary Shares for placing or repurchase by the Company at a price representing a discount of no more than 2% to the then prevailing NAV. For additional information refer to note 16 (ii) to the Financial Statements.

#### *Shareholder Information*

Shareholder information is set out in the Summary Information on page 3.

### Going Concern

The Directors believe that, having considered the Company's investment objective (see Summary Information on page 3), financial risk management (see note 16 to the Financial Statements) and in view of the Company's holding in cash and cash equivalents, the liquidity of investments and the income deriving from those investments, the Company has adequate financial resources and suitable management arrangements in place to continue as a going concern for at least twelve months from the date of approval of the financial statements.

### Viability Statement

Under the UK Corporate Governance Code, the Board is required to make a "viability statement" which considers the Company's current position and principal risks and uncertainties combined with an assessment of the prospects of the Company in order to be able to state that they have a reasonable expectation that the Company will be able to continue in operation over the period of their assessment. The Board considers that three years is an appropriate period to assess the viability of the Company given the uncertainty of the investment world and the strategy period. In selecting this period the Board considered the environment within which the Company operates and the risks associated with the Company.

The Company's prospects are driven by its business model and strategy. The Company's aim is to provide investors with an attractive level of income and a focus on capital preservation in uncertain times, by investing in less liquid, high yielding credit securities.

The Board confirms they have performed a robust assessment of the principal risks facing the Company and the Board's assessment of the Company over the three year period has been made with reference to the Company's current position and prospects, the Company's strategy, and the Board's risk appetite having considered each of the Company's Principal Risks and Uncertainties summarised on pages 21 to 23.

## DIRECTORS' REPORT continued

### Viability Statement (continued)

The Board has also considered the Company's cash flows and income flows, its likely ability to pay dividends and the portfolio analysis, including but not limited to liquidity analysis, foreign exchange analysis, credit analysis and valuation analysis. The analysis has taken the form of stress tests on the Company as well as cash flow modelling based on a range of different market scenarios. All of the foregoing have been considered against the background of the Company's dividend target.

Key assumptions considered by the Board in relation to the viability of the Company are as follows:

#### Dividend Target

The ongoing viability of the Company and the validity of the going concern basis depend on the Company meeting its dividend target annually during the three-year period. In the event that the Company does not meet the dividend target as disclosed in note 19 to the Financial Statements, the Directors will convene a general meeting in accordance with the Continuation Vote requirements set out in note 16 to the Financial Statements.

#### Quarterly Tenders

The Company has incorporated into its structure a mechanism for a quarterly tender to reduce the risk of Ordinary Shares trading at a discount to NAV. It is anticipated that the Company will tender on a quarterly basis for up to 20% of the Ordinary Shares in issue as at the relevant Quarter Record Date, subject to an aggregate limit of 50% of the Ordinary Shares in issue in any twelve month period ending on the relevant Quarter Record Date. In the event that quarterly tender applications, on any tender submission deadline, exceed the 50% limit, the Directors will convene a General Meeting in accordance with the Continuation Vote requirements set out in note 16 to the Financial Statements. The quarterly tenders will be at the discretion of the Board. Ordinary Shares trading at a discount to NAV over a long period of time may impact the viability of the Company.

The Board having considered the analysis above, have a reasonable expectation that the Company will remain viable over the three year period to 30 September 2021.

### Results

The results for the year are set out in the Statement of Comprehensive Income. The Directors paid income distributions of £11,192,051 in respect of the year ended 30 September 2018, a breakdown of which can be found in note 19 to the Financial Statements. The 30 September 2018 distribution which was declared on 11 October 2018 was paid on 31 October 2018.

Distributions made with respect to any income period comprise (a) the total income of the portfolio for the period, (b) an additional amount paid out of capital to reflect any additional income in the course of any share subscriptions that took place during the period (including additional income in this way ensures that the income yield of the shares is not diluted as a consequence of the issue of new shares during an income period) and (c) any income from the foreign exchange contracts caused by the libor differentials between each foreign exchange currency pair.

### Key Performance Indicators ("KPIs")

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives. Below are the main KPIs which have been identified by the Board for determining the progress of the Company:

- Net Asset Value;
- Share Price;
- Discount/Premium;
- Ongoing Charges; and
- Monthly Dividends.

A record of these measures is disclosed on page 4.

# TwentyFour Select Monthly Income Fund Limited

---

## DIRECTORS' REPORT continued

### Portfolio Manager

The portfolio management fee is payable to the Portfolio Manager, TwentyFour Asset Management LLP, monthly in arrears at a rate of 0.75% per annum of the lower of NAV, which is calculated weekly on each valuation day and on the last business day of each month, or market capitalisation of each class of share. For additional information refer to note 14 to the Financial Statements.

The Board considers that the interests of Shareholders, as a whole, are best served by the ongoing appointment of the Portfolio Manager to achieve the Company's investment objectives.

### Alternative Investment Fund Manager ("AIFM")

Alternative investment fund management services are provided by Maitland Institutional Services Limited ("Maitland") (formerly Phoenix Fund Services (UK) Limited). The AIFM fee is payable quarterly in arrears at a rate of 0.07% of the NAV of the Company below £50 million, 0.05% on Net Assets between £50 million and £100 million and 0.03% on Net Assets in excess of £100 million. For additional information refer to note 15 to the Financial Statements.

### Custodian and Depositary

Custody and Depositary services are provided by Northern Trust (Guernsey) Limited. The terms of the Depositary agreement allow Northern Trust (Guernsey) Limited to receive professional fees for services rendered. The Depositary agreement includes custodian duties. For additional information refer to note 15 to the Financial Statements.

### Directors

The Directors of the Company during the year and at the date of this Report are set out on page 2.

### Directors' and Other Interests

The Directors of the Company held the following Ordinary Shares beneficially:

	30.09.18	30.09.17
	Shares	Shares
Claire Whittet	25,000	25,000
Christopher Legge	50,000	50,000
Ian Martin	35,000	35,000
Thomas Emch*	-	25,000

\*Resigned 30 September 2017

The Board do not hold any shareholdings in entities where the Company has a stake in the same entity that amounts to more than 1% of its portfolio.

### Corporate Governance

The Board is committed to high standards of corporate governance and has implemented a framework for corporate governance which it considers to be appropriate for an investment company in order to comply with the principles of the UK Corporate Governance Code (the "UK Code"). The Company is also required to comply with the Code of Corporate Governance (the "GFSC Code") issued by the Guernsey Financial Services Commission.

The UK Listing Authority requires all UK premium listing companies to disclose how they have complied with the provisions of the UK Code. This Corporate Governance Statement, together with the Going Concern Statement, Viability Statement and the Statement of Directors' Responsibilities set out on pages 26 to 27, indicates how the Company has complied with the principles of good governance of the UK Code and its requirements on Internal Control.

## DIRECTORS' REPORT continued

### Corporate Governance continued

The Company is a member of the AIC and by complying with the AIC Code of Corporate Governance (the "AIC Code") is deemed to comply with both the UK Code and the GFSC Code.

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

The AIC Code and the AIC Guide are available on the AIC's website, [www.theaic.co.uk](http://www.theaic.co.uk). The UK Code is available in the Financial Reporting Council's website, [www.frc.org.uk](http://www.frc.org.uk).

Throughout the year ended 30 September 2018, the Company has complied with the recommendations of the AIC Code and thus the relevant provisions of the UK Code, except as set out below.

The UK Code includes provisions relating to:

- the role of the Chief Executive;
- Executive Directors' remuneration;
- Annually assessing the need for an internal audit function;
- Senior Independent Director;

For the reasons set out in the AIC Guide, the Board considers that the first three provisions are not relevant to the position of the Company as it is an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

The reason for not appointing a Senior Independent Director is set out on page 17.

There have been no other instances of non-compliance, other than those noted above.

The UK Code was recently revised and, at the time of writing this report, proposed revisions to the AIC Code are subject to consultation. The Directors intend to report on the Company's compliance with the revised codes in the Annual Report for the year ending 30 September 2019.

### Role, Composition and Independence of the Board

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

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

The Board's responsibilities for the Annual Report and Audited Financial Statements are set out in the Statement of Directors' Responsibilities on pages 26 to 27.

The Board currently consists of three non-executive Directors, all of whom are considered to be independent of the Portfolio Manager and as prescribed by the Listing Rules.

## DIRECTORS' REPORT continued

### Corporate Governance continued

#### Role, Composition and Independence of the Board continued

The Board does not consider it appropriate to appoint a Senior Independent Director because all Directors are deemed to be independent by the Company. The Board considers it has the appropriate balance of diverse skills and experience, independence and knowledge of the Company and the wider sector, to enable it to discharge its duties and responsibilities effectively and that no individual or group of individuals dominates decision making. The Chair is responsible for leadership of the Board and ensuring its effectiveness.

#### Chair

The Chair is Claire Whittet. The Chair of the Board must be, and is considered to be, independent for the purposes of Chapter 15 of the Listing Rules.

Biographies for all the Directors can be found on page 11. Furthermore, the Board:

- has no current or historical employment with the Portfolio Manager; and
- has no current directorships in any other investment funds managed by the Portfolio Manager.

The Board needs to ensure that the Annual Report and Audited 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. In seeking to achieve this, the Directors have set out the Company's investment objective and policy and have explained how the Board and its delegated Committees operate and how the Directors review the risk environment within which the Company operates and set appropriate risk controls. Furthermore, throughout the Annual Report and Audited Financial Statements the Board has sought to provide further information to enable shareholders to have a fair, balanced and understandable view.

The Board has contractually delegated responsibility for the management of its investment portfolio, the arrangement of custodial and depositary services and the provision of accounting and company secretarial services.

The Board is responsible for the appointment and monitoring of all service providers to the Company.

The Directors are kept fully informed of investment and financial controls and other matters by all services providers that are relevant to the business of the Company and should be brought to the attention of the Directors.

The Company has adopted a policy that the composition of the Board of Directors, which is required by the Company's Articles to comprise of at least two persons, is at all times such that a majority of the Directors are independent of the Portfolio Manager and any company in the same group as the Portfolio Manager; the Chair of the Board of Directors is free from any conflicts of interest and is independent of the Portfolio Manager and of any company in the same group as the Portfolio Manager; and that no more than one director, partner, employee or professional adviser to the Portfolio Manager or any company in the same group as the Portfolio Manager may be a Director of the Company at any one time.

The Board has a breadth of experience relevant to the Company and the Directors believe that any changes to the Board's composition can be managed without undue disruption. With any new director appointment to the Board, consideration will be given as to what induction process is appropriate.

# TwentyFour Select Monthly Income Fund Limited

## DIRECTORS' REPORT continued

### Corporate Governance continued

#### Role, Composition and Independence of the Board continued

The Board has also given careful consideration to the recommendations of the Davies Review. The Board has reviewed its composition and believes that the current appointments provide an appropriate range of skills, experience and diversity. In order to maintain its diversity, the Board is committed to continuing its implementation of the recommendations of the Davies Review as part of its succession planning over future years and complying with the disclosure requirements of DTR 7.2.8 in terms of the Company's diversity policy.

#### Cross-Directorships

Ms Whittet and Mr Legge both hold positions on the Board of Third Point Offshore Investors Ltd, a London listed Company, as noted on page 12. The Board does not consider this to be a threat to their independence.

#### Directors' Attendance at Meetings

The Board holds quarterly Board meetings, to discuss general management, structure, finance, corporate governance, marketing, risk management, compliance, asset allocation and gearing, contracts and performance. The quarterly Board meetings are the principal source of regular information for the Board enabling it to determine policy and to monitor performance, compliance and controls but these meetings are also supplemented by communication and discussions throughout the year.

A representative from each of the Portfolio Manager, AIFM, Administrator, Custodian and Depositary and Corporate Broker attends each Board meeting either in person or by telephone thus enabling the Board to fully discuss and review the Company's operation and performance. Each Director has direct access to the Portfolio Manager and Company Secretary and may, at the expense of the Company, seek independent professional advice on any matter.

Both appointment and removal of these parties is to be agreed by the Board as a whole.

The Audit and Risk Committee meets at least twice a year, the Management Engagement Committee and Remuneration and Nomination Committee meet at least once a year, a dividend meeting is held monthly and there are additional meetings covering the Quarterly Tender as and when necessary. In addition, ad hoc meetings of the Board to review specific items between the regular scheduled quarterly meetings can be arranged. Between formal meetings there is regular contact with the Portfolio Manager, AIFM, Administrator, Custodian and Depositary and the Corporate Broker.

Attendance at the Board, Audit and Management Engagement Committee meetings during the year was as follows:

	Board Meetings		Audit and Risk Committee Meetings		Management Engagement Committee Meetings		Remuneration and Nomination Committee Meetings		Ad hoc Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Claire Whittet	4	4	3	3	1	1	1	1	19	13
Christopher Legge	4	3	3	3	1	1	1	0	19	12
Ian Martin	4	4	3	3	1	1	1	1	19	16

At the Board meetings, the Directors review the management of the Company's assets and liabilities and all other significant matters so as to ensure that the Directors maintain overall control and supervision of the Company's affairs.

Mr Legge was unable to attend one of the Company's quarterly Board meetings and its annual Remuneration and Nomination Committee meeting, for which he is Chair, due to medical reasons.

## DIRECTORS' REPORT continued

### Corporate Governance continued

#### Election of Directors

The election of Directors is set out in the Directors' Remuneration Report on pages 28 to 29.

#### Board Performance and Training

The Board undertook an annual self-evaluation and Chair evaluation and discussed the results in May 2018. The Board assessed and discussed their composition and balance of skills, board processes, information flows, any areas for additional training, board dynamics, accountability and their effectiveness. There were no material findings from this evaluation.

In 2017, the Board commissioned Optimus Group Limited ("Optimus") to conduct an independent evaluation of the performance of the Board, its committees and its individual Directors including mapping its performance to the UK Code, the AIC Code and the AIC Handbook for Directors of Investment Companies. The conclusion of the evaluation was positive and Optimus were satisfied that the Board is compliant with the Code in those areas reviewed. Following the review the Board created the Remuneration and Nomination Committee.

On appointment to the Board, the Directors were offered relevant training and induction. Training is an on-going matter as is discussion on the overall strategy of the Company and the Board met with the Portfolio Manager early in the year to discuss these matters.

On appointment to the Board, each Director considered the expected time needed to discharge their responsibilities effectively. The Directors confirmed that each had sufficient time to allocate and would inform the Board of any subsequent changes.

In respect of the Criminal Finances Act 2017 which has introduced a new corporate criminal offence ("CCO") of 'failing to take reasonable steps to prevent the facilitation of tax evasion', the Board confirms that they are committed to zero tolerance towards the criminal facilitation of tax evasion.

#### Retirement by Rotation

Under the terms of their appointment, each Director is required to retire by rotation and be subject to re-election at least every three years. The Directors are also required to seek re-election if they have already served for more than nine years. 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. Notwithstanding the foregoing, all Directors have agreed to stand for re-election annually.

### Board Committees and their Activities

#### Terms of Reference

All Terms of Reference of the Board's Committees are available from the Administrator upon request.

#### Management Engagement Committee

The Board has established a Management Engagement Committee with formal duties and responsibilities. The Management Engagement Committee commits to meeting at least once a year and comprises the entire Board with Ian Martin appointed as Chair. These duties and responsibilities include the regular review of the performance, fees and contractual arrangements with the Portfolio Manager and other service providers and the preparation of the Committee's annual opinion as to the Portfolio Manager's services.

The Management Engagement Committee carried out its review of the performance and capabilities of the Portfolio Manager at its meeting during the year and the Board recommended the continued appointment of TwentyFour Asset Management LLP as Portfolio Manager to be in the interest of the Company.



# TwentyFour Select Monthly Income Fund Limited

---

## DIRECTORS' REPORT continued

### Corporate Governance continued

### Management Engagement Committee continued

The Board also conducts an annual strategy day with the PMs at their offices and in addition to this attended the PMs Annual conference.

### Audit and Risk Committee

An Audit and Risk Committee has been established consisting of all Directors with Christopher Legge appointed as Chair. The terms of reference of the Audit and Risk Committee provide that the committee shall be responsible, amongst other things, for reviewing the Interim and Annual Financial Statements, considering the appointment and independence of external auditors, discussing with the external auditors the scope of the audit and reviewing the Company's compliance with the AIC Code.

Further details on the Audit and Risk Committee can be found in the Audit and Risk Committee Report on page 30.

### Remuneration and Nomination Committee

The Remuneration and Nomination Committee was established during the previous year following an independent board evaluation by Optimus with Christopher Legge appointed as Chair.

The Committee met on the 11 September 2018.

The Committee discussed remuneration which was agreed to remain at current levels with a further review to be carried out in 2020.

Diversity of the Board was discussed and it was noted that the split of 33% remained within the gender diversity guidelines.

### International Tax Reporting

For purposes of the US Foreign Account Tax Compliance Act, the Company registered with the US Internal Revenue Service ("IRS") as a Guernsey reporting Foreign Financial Institution ("FFI"), received a Global Intermediary Identification Number (E5XSVA.99999.SL.831), and can be found on the IRS FFI list.

The Common Reporting Standard ("CRS") is a global standard for the automatic exchange of financial account information developed by the Organisation for Economic Co-operation and Development ("OECD"), which has been adopted in Guernsey.

The Board ensures that the Company is compliant with Guernsey regulations and guidance in this regard.

### Strategy

The strategy for the Company is to capture the illiquidity premium that is associated with 'off the run' bond issues. As part of the general search for high conviction, relative value securities the Portfolio Manager continually came across interesting investment opportunities but too often these bonds did not offer sufficient liquidity to use in the typical daily mark-to-market UCITs funds, however they are suitable for closed ended vehicles. By remaining highly selective and without conceding on underlying credit quality, the strategy targets a monthly distribution of 0.5p per share, with all excess income being distributed to investors at the year-end of the Company.

## DIRECTORS' REPORT continued

### Corporate Governance continued

#### Internal Controls

The Board is ultimately responsible for establishing and maintaining the Company's system of internal financial and operating control and for maintaining and reviewing its effectiveness. The Company's risk matrix continues to be the core element of the Company's risk management process in establishing the Company's system of internal financial and reporting control. The risk matrix is prepared and maintained by the Board which initially identifies the risks facing the Company and then collectively assesses the likelihood of each risk, the impact of those risks and the strength of the controls operating over each risk. The system of internal financial and operating control is designed to manage rather than to eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against misstatement and loss.

These controls aim to ensure that assets of the Company are safeguarded, proper accounting records are maintained and the financial information for publication is reliable. The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company.

This process has been in place for the year under review and up to the date of approval of this Annual Report and Audited Financial Statements and is reviewed by the Board and is in accordance with the AIC Code.

The AIC Code requires Directors to conduct at least annually a review of the Company's system of internal financial and operating control, covering all controls, including financial, operational, compliance and risk management. The Board has evaluated the systems of internal controls of the Company. In particular, it has prepared a process for identifying and evaluating the significant risks affecting the Company and the policies by which these risks are managed. The Board also considers whether the appointment of an internal auditor is required and has determined that there is no requirement for a direct internal audit function.

The Board has delegated the day to day responsibilities for the management of the Company's investment portfolio, the provision of depositary services and administration, registrar and corporate secretarial functions including the independent calculation of the Company's NAV and the production of the Annual Report and Financial Statements which are independently audited.

Formal contractual agreements have been put in place between the Company and providers of these services. Even though the Board has delegated responsibility for these functions, it retains accountability for these functions and is responsible for the systems of internal control. At each quarterly Board meeting, compliance reports are provided by the Administrator, Company Secretary, Portfolio Manager, AIFM and Depositary. The Board also receives confirmation from the Administrator of its accreditation under its Service Organisation Controls 1 report.

The Company's risk exposure and the effectiveness of its risk management and internal control systems are reviewed by the Audit and Risk Committee at its meetings and annually by the Board. The Board believes that the Company has adequate and effective systems in place to identify, mitigate and manage the risks to which it is exposed. Principal Risks and Uncertainties are set out below.

#### Principal Risks and Uncertainties

The Board is responsible for the Company's system of internal financial and reporting controls and for reviewing its effectiveness. The Board is satisfied that by using the Company's risk matrix as its core element in establishing the Company's system, internal financial and reporting controls while monitoring the investment limits and restrictions set out in the Company's investment objective and policy, that the Board has carried out a robust assessment of the principal risks and uncertainties facing the Company.

## DIRECTORS' REPORT continued

### Corporate Governance continued

#### Principal Risks and Uncertainties continued

The principal risks which have been identified and the steps which are taken by the Board to mitigate them are as follows:

##### *Market risk*

The underlying investments comprised in the portfolio are subject to market risk. The Company is therefore at risk that market events may affect performance and in particular may affect the value of the Company's investments which are valued on a marked to market basis. Market risk is the risk associated with changes in market prices, including spreads, economic uncertainty, changes in laws and political (national and international) circumstances. While the Company, through its investments in Credit Securities intends to hold a diversified portfolio of assets, factors such as levels of sovereign debt or political events may have a material impact which could be materially detrimental to the performance of the Company's investments.

Under extreme market conditions the portfolio may not benefit from diversification. For additional information refer to Note 16 to the Financial Statements.

##### *Liquidity risk*

Investments made by the Company may be illiquid and this may limit the ability of the Company to realise its investments for the purposes of cash management, such as generating cash for dividend payments to Shareholders or buying back Ordinary Shares under the Quarterly Tenders or in the market. Substantially all of the assets of the Company are invested in Credit Securities. There may be no active market in the Company's interests in Credit Securities and the Company may be required to provide liquidity to fund Tender Requests or repay any borrowings. The Company does not have redemption rights in relation to any of its investments. As a consequence, the value of the Company's investments may be materially adversely affected. For additional information refer to note 16 to the Financial Statements.

##### *Credit risk*

The Company may not achieve the Dividend Target and investors may not get back the full value of their investment because the Company invests in Credit Securities issued by other companies, trusts or other investment vehicles which, compared to bonds issued or guaranteed by governments, are generally exposed to greater risk of default in the repayment of the capital provided to the issuer or interest payments due to the Company. The amount of credit risk is indicated by the issuer's credit rating which is assigned by one or more internationally recognised rating agencies. This does not amount to a guarantee of the issuer's creditworthiness but generally provides a good indicator of the likelihood of default. Securities which have a lower credit rating are generally considered to have a higher credit risk and a greater possibility of default than more highly rated securities. There is a risk that an internationally recognised rating agency may assign incorrect or inappropriate credit ratings to issuers. Issuers often issue securities which are ranked in order of seniority which, in the event of default, would be reflected in the priority in which investors might be paid back.

The level of defaults in the portfolio and the losses suffered on such defaults may increase in the event of adverse financial or credit market conditions.

## DIRECTORS' REPORT continued

### Corporate Governance continued

#### Principal Risks and Uncertainties continued

##### *Credit risk continued*

In the event of a default of a Credit Security, the Company's right to recover will depend on the ability of the Company to exercise any rights that it has against the borrower under the insolvency legislation of the jurisdiction in which the borrower is incorporated. As a creditor, the Company's level of protection and rights of enforcement may therefore vary significantly from one country to another, may change over time and may be subject to rights and protections which the relevant borrower or its other creditors might be entitled to exercise. Refer to Investment Objective and Policy on page 3 for information regarding investment restrictions currently in place in order to manage credit risk. For additional information refer to note 16 to the Financial Statements.

##### *Foreign currency risk*

The Company is exposed to foreign currency risk through its investments denominated in currencies other than Sterling. The Company's share capital is denominated in Sterling and its expenses are incurred in Sterling. The Company's Financial Statements are maintained and presented in Sterling. At year end, of the foreign currency investments, approximately 48% are in Euros and 11% are in US Dollars. Amongst other factors affecting the foreign exchange markets, events in the Eurozone and U.S. may have an impact upon the value of the Euro and US dollar which in turn will impact the value of the Company's Euro and US dollar denominated investments. The Company manages its exposure to currency movements by using spot and forward foreign exchange contracts, which are rolled forward periodically. For additional information refer to note 16 to the Financial Statements.

##### *Reinvestment risk*

Quantitative easing resulted in lower yields across all fixed income products and tightening credit spreads. This could pose a challenge for the Portfolio Manager when it comes to reinvesting any monies that result from portfolio asset redemptions and income payments. The Portfolio Manager has recognised this potential challenge and performed ongoing cash flow analysis on the current portfolio; encouragingly the redemptions and expected income payments over the coming 12 months do not pose a significant challenge. Trying to predict market conditions years ahead is notoriously difficult, however the Portfolio Manager recognises there may be a requirement to be more opportunistic in terms of timing for new investments i.e. aim to reinvest when the market is most volatile and also to remain vigilant to requests for issuance of new shares. For further information refer to note 16 to the Financial Statements.

#### Other Risks and Uncertainties

The Board has identified the following other risks and uncertainties along with steps taken to mitigate them:

##### *Operational risks*

The Company is exposed to the risk arising from any failures of systems and controls in the operations of the Portfolio Manager, Administrator, AIFM and the Custodian and Depositary amongst others. The Board and its Audit and Risk Committee regularly review reports from the Portfolio Manager, the AIFM, Administrator and Custodian and Depositary on their internal controls. The Administrator will report to the Portfolio Manager any valuation issues which will be brought to the Board for final approval as required.

##### *Accounting, legal and regulatory risks*

The Company is exposed to the risk that it may fail to maintain accurate accounting records, fail to comply with requirements of its Admission document and fail to meet listing obligations. The accounting records prepared by the Administrator are reviewed by the Portfolio Manager. The Portfolio Manager, Administrator, AIFM, Custodian and Depositary and Corporate Broker provide regular updates to the Board on compliance with the Admission document and changes in regulation. Changes in legal or regulatory environment can have a major impact on some classes of debt. The Portfolio Manager and Board monitor this and take appropriate action where needed.

## DIRECTORS' REPORT continued

### Corporate Governance continued

### Other Risks and Uncertainties continued

#### *Income recognition risk*

The Board considers income recognition as another risk and uncertainty of the Company. The Portfolio Manager estimates the remaining life of the security and its likely terminal value, which has an impact on the effective interest rate of the Credit Securities which in turn impacts the calculation of interest income. The Board asked the Audit and Risk Committee to consider this risk with work undertaken by the Audit and Risk Committee as discussed on pages 30 to 32. As a result of this work, the Board is satisfied that income is appropriately stated in all material aspects in the Financial Statements.

#### *Cyber security risks*

The Company is exposed to risk arising from a successful cyber-attack through its service providers. The Company requests of its service providers that they have appropriate safeguards in place to mitigate the risk of cyber-attacks (including minimizing the adverse consequences arising from any such attack), that they provide regular updates to the Board on cyber security, and conduct ongoing monitoring of industry developments in this area. The Board is satisfied that the Company's service providers have the relevant controls in place to mitigate this risk.

### Shareholder Engagement

The Board welcomes shareholders' views and places great importance on communication with its shareholders. Shareholders wishing to meet with the Chair and other Board members should contact the Company's Administrator.

The Portfolio Manager and Listing Sponsor maintain a regular dialogue with institutional shareholders, the feedback from which is reported to the Board.

The Company's Annual General Meeting ("AGM") provides a forum for shareholders to meet and discuss issues of the Company and shareholders with the opportunity to vote on the resolutions as specified in the Notice of AGM. The Notice of the AGM and the results are released to the LSE in the form of an announcement.

An Extraordinary Resolution was proposed at the AGM on 4 July 2018 to dis-apply pre-emption rights to equity shares allotted by the Directors of the Company for cash, as if the pre-emption rights contained in the Articles in respect of such equity securities did not apply. It was carried by the necessary 75% of votes in favour.

The Board also noted significant votes against the re-election of Mr Legge at the AGM on 4 July 2018. However, it was further noted that total voting in relation to all resolutions tabled was low, namely only 14% of the total shares in issue. From discussions with the main shareholder who voted against Mr Legge's re-election the reason for their decision was a perceived situation of overboarding. The Board has discussed this with Mr Legge and is satisfied that he has sufficient time available to fulfil his duties to the Company. Furthermore, the Board noted that two of his current appointments are in respect of companies that are in run-off.

In addition, the Company maintains a website which contains comprehensive information, including links to regulatory announcements, share price information, financial reports, investment objectives and investor contacts.

# TwentyFour Select Monthly Income Fund Limited

---

## DIRECTORS' REPORT continued

### Corporate Governance continued

#### Significant Shareholdings

Shareholders with holdings of more than 3.0% of the Shares of the Company at 9 January 2019 were as follows:

	Number of shares	Percentage of issued share capital
Nortrust Nominees Limited	12,337,426	6.66%
Pershing Nominees Limited	10,987,819	5.93%
Vidacos Nominees Limited	8,552,783	4.62%
W B Nominees Limited	6,808,414	3.68%
The Bank of New York (Nominees) Limited	6,654,088	3.59%
State Street Nominees Limited	6,044,659	3.26%
Hargreaves Lansdown (Nominees) Limited	5,648,295	3.05%

Those invested directly or indirectly in 3.0% or more of the issued share capital of the Company will have the same voting rights as other holders of the Shares.

#### Independent Auditor

A resolution for the reappointment of PricewaterhouseCoopers CI LLP was proposed and approved at the AGM on 4 July 2018.

Signed on behalf of the Board of Directors on 14 January 2019 by:

Claire Whittet  
Chair

Christopher Legge  
Director

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Guernsey Company law requires the Directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards ("IFRS") and applicable law.

The Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with these requirements in preparing the Financial Statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements have been properly prepared in accordance with The Companies (Guernsey) Law, 2008. They 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.

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors are responsible for the oversight of the maintenance and integrity of the corporate and financial information in relation to the Company website; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES continued

The Directors confirm that to the best of their knowledge:

- (a) The Financial Statements have been prepared in accordance with IFRS and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company as at and for the year ended 30 September 2018.
- (b) The Annual Report includes information detailed in the Chair's Statement, Portfolio Manager's Report, Directors' Report, Directors' Remuneration Report, Audit and Risk Committee Report, Alternative Investment Fund Manager's Report and Depositary Statement provides a fair review of the information required by:
  - (i) DTR 4.1.8 and DTR 4.1.9 of the Disclosure and Transparency Rules, being a fair review of the Company business and a description of the principal risks and uncertainties facing the Company; and
  - (ii) DTR 4.1.11 of the Disclosure and Transparency Rules, being an indication of important events that have occurred since the end of the financial year and the likely future development of the Company.

In the opinion of the Board, the Financial Statements taken as a whole, are fair, balanced and understandable and provide the information necessary to assess the Company's position and performance, business model and strategy.

By order of the Board,

Claire Whittet  
Chair  
14 January 2019

Christopher Legge  
Director



## DIRECTORS' REMUNERATION REPORT

The Directors' remuneration report has been prepared in accordance with the UK Code as issued by the UK Listing Authority. An ordinary resolution for the approval of the annual remuneration report was put to the shareholders at the AGM held on 4 July 2018.

### Remuneration policy

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

It is the responsibility of the Remuneration and Nomination Committee to determine and approve the Directors' remuneration, who will have given the matter proper consideration, 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. The Chair's remuneration is decided separately and is approved by the Board as a whole.

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.

### Remuneration

The Directors of the Company are remunerated for their services at such a rate as the Directors determine, provided that the aggregate amount of such fees does not exceed £150,000 per annum.

Directors are remunerated in the form of fees, payable quarterly in arrears, to the Director personally. No Directors have been paid additional remuneration by the Company outside their normal Director's fees and expenses.

In the year ended 30 September 2018 the Directors received the following annual remuneration in the form of Directors' fees:

Claire Whittet (Chair of the Board)	£42,000
Christopher Legge (Audit and Risk Committee Chairman)	£37,000
Ian Martin (MEC Chairman)	£32,000
Total	<u>£111,000</u>

Appropriate 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 in February and July 2014. Each Director's appointment letter provides that, upon the termination of his/her appointment, that he/she 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.

There is no notice period specified in the Articles for the removal of Directors. 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 six months or more; (c) unanimous written request of the other Directors; and (d) an ordinary resolution of the Company.

## DIRECTORS' REMUNERATION REPORT continued

Under the terms of their appointment, each Director is required to retire by rotation and be subject to re-election at least every three years but have opted for annual re-election. The Directors are required to seek re-election if they have already served for more than nine years. 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 shown in note 14 to the Financial Statements are for services as non-executive Directors.

No Director has a service contract with the Company, nor are any such contracts proposed.

Signed on behalf of the Board of Directors on 14 January 2019 by:

Claire Whittet  
Chair

Christopher Legge  
Director

## AUDIT AND RISK COMMITTEE REPORT

On the following pages, we present the Audit and Risk Committee's Report, setting out the responsibilities of the Audit and Risk Committee and its key activities for the year ended 30 September 2018.

The Audit and Risk Committee has scrutinised the appropriateness of the Company's system of risk management and internal financial and operating controls, the robustness and integrity of the Company's financial reporting, along with the external audit process. The Audit and Risk Committee has devoted time to ensuring that controls and processes have been properly established, documented and implemented.

During the course of the year, the information that the Audit and Risk Committee has received has been timely and clear and has enabled the Committee to discharge its duties effectively.

The Audit and Risk Committee is supportive of the latest UK Code recommendations and other corporate governance organisations such as the AIC, and believes that the revised AIC Code, when issued, will allow the Audit and Risk Committee to further strengthen its role as a key independent oversight Committee.

A new version of the UK Code was issued during 2018 and takes effect from 1 January 2019. The Audit and Risk Committee has considered the impact on its responsibilities with the Company and is well placed to ensure compliance when it comes into effect.

### **Role and responsibilities**

The primary function of the Audit and Risk Committee is to assist the Board in fulfilling its oversight responsibilities. This includes reviewing the financial reports and other financial information and any significant financial judgement contained therein, before publication.

In addition, the Audit and Risk Committee reviews the systems of internal financial and operating controls on a continuing basis that the Administrator, Portfolio Manager, AIFM, and Custodian and Depositary and the Board have established with respect to finance, accounting, risk management, compliance, fraud and audit. The Audit and Risk Committee also reviews the accounting and financial reporting processes, along with reviewing the roles, independence and effectiveness of the external auditor.

The ultimate responsibility for reviewing and approving the Annual and Interim Financial Statements remain with the Board.

The Audit and Risk Committee's full terms of reference can be obtained by contacting the Company's Administrator.

### **Risk management and internal control**

The Board, as a whole, consider the nature and extent of the Company's risk management framework and the risk profile that is acceptable in order to achieve the Company's strategic objectives. As a result, it is considered that the Board has fulfilled its obligations under the AIC Code.

The Audit and Risk Committee continues to be responsible for reviewing the adequacy and effectiveness of the Company's on-going risk management systems and processes. Its system of internal controls, along with its design and operating effectiveness, is subject to review by the Audit and Risk Committee through reports received from the Portfolio Manager, AIFM and Custodian and Depositary, along with those from the Administrator and external auditor.

### **Fraud, Bribery and Corruption**

The Board has relied on the overarching requirement placed on the service providers under the relevant agreements to comply with applicable law, including anti-bribery laws. A review of the service provider policies took place at the Management Engagement Committee Meeting on 4 July 2018. The Board receives confirmation from all service providers that there has been no fraud, bribery or corruption.

## AUDIT AND RISK COMMITTEE REPORT continued

### Financial reporting and significant financial issues

The Audit and Risk Committee assesses whether suitable accounting policies have been adopted and whether the Portfolio Manager has made appropriate estimates and judgements. The Audit and Risk Committee reviews accounting papers prepared by the Portfolio Manager and Administrator which provides details on the main financial reporting judgements.

The Audit and Risk Committee also reviews reports by the external auditors which highlight any issues with respect to the work undertaken on the audit.

The significant issues considered during the year by the Audit and Risk Committee in relation to the Financial Statements and how they were addressed are detailed below:

#### (i) Valuation of investments:

The Company's investments had a fair value of £162,829,994 as at 30 September 2018 (30 September 2017: £148,499,775) and represent a substantial portion of net assets of the Company. As such this is the largest factor in relation to the consideration of the Financial Statements. These investments are valued in accordance with the Accounting Policies set out in note 2 and note 3 to the Financial Statements. The Audit and Risk Committee considered the valuation of the investments held by the Company as at 30 September 2018 to be reasonable based on information provided by the Portfolio Manager, AIFM, Administrator, Custodian and Depository on their processes for the valuation of these investments.

#### (ii) Income Recognition:

The Audit and Risk Committee considered the calculation of income from investments recorded in the Financial Statements as at 30 September 2018. As disclosed in note 3(ii)(b) of the Notes to the Financial Statements, the estimated life of Credit Securities is determined by the Portfolio Manager, impacting the effective interest rate of the Credit Securities which in turn impacts the calculation of income from investments. The Audit and Risk Committee reviews the Portfolio Manager's processes at least annually for determining the expected life of the Company's investments and have found them to be reasonable based on the explanations provided and information obtained from the Portfolio Manager. The Audit and Risk Committee was therefore satisfied that income was appropriately stated in all material aspects in the Financial Statements.

Following a review of the presentations and reports from the Portfolio Manager and Administrator and consulting where necessary with the external auditor, the Audit and Risk Committee is satisfied that the Financial Statements appropriately address the critical judgements and key estimates (both in respect to the amounts reported and the disclosures). The Audit and Risk Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

The Company's reporting currency is Sterling while a significant proportion of the investments owned are denominated in foreign currencies. The Company operates a hedging strategy designed to mitigate the impact of foreign currency rate changes on the performance of the Company. The Audit and Risk Committee has used information from the Administrator and Portfolio Manager to satisfy itself concerning the effectiveness of the hedging process, as well as to confirm that realised and unrealised foreign currency gains and losses have been correctly recorded.

At the Audit and Risk Committee meeting to review the Annual Report and Audited Financial Statements, the Audit and Risk Committee received and reviewed a report on the audit from the external auditors. On the basis of its review of this report, the Audit and Risk Committee is satisfied that the external auditor has fulfilled its responsibilities with diligence and professional scepticism. The Audit and Risk Committee advised the Board that these Annual Financial Statements, taken as a whole, are fair, balanced and understandable.

# TwentyFour Select Monthly Income Fund Limited

## AUDIT AND RISK COMMITTEE REPORT continued

### Financial reporting and significant financial issues continued

The Audit and Risk Committee is satisfied that the judgements made by the Portfolio Manager and Administrator are reasonable, and that appropriate disclosures have been included in the Financial Statements.

### External Auditors

The Audit and Risk Committee has responsibility for making a recommendation on the appointment, re-appointment and removal of the external auditors. PricewaterhouseCoopers CI LLP ("PwC") were appointed as the first auditors of the Company. During the year the Audit and Risk Committee received and reviewed audit plans and reports from the external auditors. It is standard practice for the external auditors to meet privately with the Audit and Risk Committee without the Portfolio Manager and other service providers being present at each Audit and Risk Committee meeting.

To assess the effectiveness of the external audit process, the auditors were asked to articulate the steps that they have taken to ensure objectivity and independence, including where the auditor provides non-audit services. The Audit and Risk Committee monitors the auditors' performance, behaviour and effectiveness during the exercise of their duties, which informs the decision to recommend reappointment on an annual basis.

The Company generally does not utilise external auditors for internal audit purposes, secondments or valuation advice. Services which are in the nature of audit, such as tax compliance, private letter rulings, accounting advice and disclosure advice are normally permitted but all non-audit services are required to be pre-approved by the Audit and Risk Committee.

The following table summarises the remuneration paid to PwC and to other PwC member firms for audit and non-audit services in respect of the year ended 30 September 2018 and for the year ended 30 September 2017.

	Year ended 30.09.18	Year ended 30.09.17
<b>PricewaterhouseCoopers CI LLP - Assurance work</b>	£	£
- Annual audit of the Company	51,500	48,925
- Interim review	16,000	16,000
<b>PricewaterhouseCoopers CI LLP - Non assurance work</b>		
- Tax consulting and compliance services	15,000	15,000
- Ratio of assurance to non-assurance work	82% / 18%	81% / 19%

The Company does not qualify as an EU Public Interest Entity and is therefore not subject to the restrictions on non-audit services provided by its auditor under this regime.

For any questions on the activities of the Audit and Risk Committee not addressed in the foregoing, a member of the Audit and Risk Committee remains available to attend each AGM to respond to such questions.

The Audit and Risk Committee and Risk Report was approved by the Audit and Risk Committee on 14 January 2019 and signed on behalf by:

Christopher Legge  
Chairman, Audit and Risk Committee

# TwentyFour Select Monthly Income Fund Limited

---

## ALTERNATIVE INVESTMENT MANAGER'S REPORT

Maitland Institutional Services Ltd acts as the Alternative Investment Fund Manager ("AIFM") of TwentyFour Select Monthly Income Fund Limited ("the Company") providing portfolio management and risk management services to the Company.

The AIFM has delegated the following of its alternative investment fund management functions:

- It has delegated the portfolio management function for listed investments to TwentyFour Asset Management LLP.
- It has delegated the portfolio management function for unlisted investments to TwentyFour Asset Management LLP.

The AIFM is required by the Alternative Investment Fund Managers Directive 2011, 61/EU (the "AIFM Directive") and all applicable rules and regulations implementing the AIFM Directive in the UK (the "AIFM" Rules):

- to make the annual report available to investors and to ensure that the annual report is prepared in accordance with applicable accounting standards, the Company's articles of incorporation and the AIFM Rules and that the annual report is audited in accordance with International Standards on Auditing;
- be responsible for the proper valuation of the Company's assets, the calculation of the Company's net asset value and the publication of the Company's net asset value; and,
- to make available to the Company's shareholders, a description of all fees, charges and expenses and the amounts thereof, which have been directly or indirectly borne by them,
- ensure that the Company's shareholders have the ability to redeem their share in the capital of the Company in a manner consistent with the principle of fair treatment of investors under the AIFM Rules and in accordance with the Company's redemption policy and its obligations.

The AIFM is required to ensure that the annual report contains a report that shall include a fair and balanced review of the activities and performance of the Company, containing also a description of the principal risks and investment or economic uncertainties that the Company might face.

### AIFM Remuneration

Under the Alternative Investment Fund Managers Directive, acting as the AIFM, Maitland Institutional Services Ltd is required to disclose how those whose actions have a material impact on the Company are remunerated.

Due to the nature of the activities conducted by Maitland Institutional Services Ltd, it has deemed itself as a lower risk firm in accordance with SYSC 19B and the remuneration code. The only employees at Maitland Institutional Services Ltd permitted to have a material impact on the risk profile of the AIF are the Board and the Head of Risk and Compliance.

The delegated Portfolio Manager, TwentyFour Asset Management LLP, is subject to regulatory requirements on remuneration that are broadly equivalent to those detailed in the Alternative Investment Fund Managers Directive, which include the Capital Requirements Directive or Markets in Financial Instruments Directive. While a portion of the remuneration paid by the Portfolio Manager is variable and based, in part, on the performance of the investment portfolio, the investment discretion of the Portfolio Manager is strictly controlled within certain pre-defined parameters as detailed in the prospectus of the Company.

Under the AIFM Directive, the AIFM is required to stipulate how much it pays to its staff, in relation to fixed and variable remuneration and how much, in relation to the Company, is firstly attributed to all staff and those that are deemed, under the directive, to have an impact on the risk profile of the Company. Maitland Institutional Services Ltd does not pay any form of variable remuneration.

## TwentyFour Select Monthly Income Fund Limited

---

### ALTERNATIVE INVESTMENT MANAGER'S REPORT continued

The table provided below has been calculated in accordance with the Maitland remuneration policy taking into account fees charged during the year for the TwentyFour Select Monthly Income Fund Limited as Alternative Investment Manager. Our most recent remuneration policy which contains further information on the fees charged for all funds for which we act as Alternative Investment Manager, are available from our website [www.maitlandgroup.com](http://www.maitlandgroup.com).

September 2018	Number of Beneficiaries	Total remuneration paid	Fixed remuneration
Total remuneration paid by the AIFM during the year	77	£77,547	£77,547
Remuneration paid to employees of the AIFM who have a material impact on the risk profile of the AIF	5	£14,416	£14,416

In so far as the AIFM is aware:

- there is no relevant audit information of which the Company's auditors or the Company's board of directors are unaware; and
- the AIFM has taken all steps that it ought to have taken to make itself aware of any relevant audit information and to establish that the auditors are aware of that information.

We hereby certify that this report is made on behalf of the AIFM, Maitland Institutional Services Ltd.

D. Jones  
P.F. Brickley  
Directors  
Maitland Institutional Services Ltd  
14 January 2019

# TwentyFour Select Monthly Income Fund Limited

---

## DEPOSITARY STATEMENT

for the year ended 30 September 2018

### Report of the Depositary to the Shareholders

Northern Trust (Guernsey) Limited has been appointed as Depositary to TwentyFour Select Monthly Income Fund Limited (the "Company") in accordance with the requirements of Article 36 and Articles 21(7), (8) and (9) of the Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (the "AIFM Directive").

We have enquired into the conduct of Maitland Institutional Services Limited (the "AIFM") and the Company for the year ended 30 September 2018, in our capacity as Depositary to the Company.

This report including the review provided below has been prepared for and solely for the Shareholders in the Company. We do not, in giving this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown.

Our obligations as Depositary are stipulated in the relevant provisions of the AIFM Directive and the relevant sections of Commission Delegated Regulation (EU) No 231/2013 (collectively the "AIFMD legislation") and The Authorised Closed Ended Investment Scheme Rules 2008.

Amongst these obligations is the requirement to enquire into the conduct of the AIFM and the Company and their delegates in each annual accounting period.

Our report shall state whether, in our view, the Company has been managed in that period in accordance with the AIFMD legislation. It is the overall responsibility of the AIFM and the Company to comply with these provisions. If the AIFM, the Company or their delegates have not so complied, we as the Depositary will state why this is the case and outline the steps which we have taken to rectify the situation.

The Depositary and its affiliates is or may be involved in other financial and professional activities which may on occasion cause a conflict of interest with its roles with respect to the Company. The Depositary will take reasonable care to ensure that the performance of its duties will not be impaired by any such involvement and that any conflicts which may arise will be resolved fairly and any transactions between the Depositary and its affiliates and the Company shall be carried out as if effected on normal commercial terms negotiated at arm's length and in the best interests of Shareholders.

### Basis of Depositary Review

The Depositary conducts such reviews as it, in its reasonable discretion, considers necessary in order to comply with its obligations and to ensure that, in all material respects, the Company has been managed (i) in accordance with the limitations imposed on its investment and borrowing powers by the provisions of its constitutional documentation and the appropriate regulations and (ii) otherwise in accordance with the constitutional documentation and the appropriate regulations. Such reviews vary based on the type of Fund, the assets in which a Fund invests and the processes used, or experts required, in order to value such assets.

### Review

In our view, the Company has been managed during the period, in all material respects:

- (i) in accordance with the limitations imposed on the investment and borrowing powers of the Company by the constitutional document; and by the AIFMD legislation; and
- (ii) otherwise in accordance with the provisions of the constitutional document; and the AIFMD legislation.

For and on behalf of  
Northern Trust (Guernsey) Limited  
14 January 2019



# TwentyFour Select Monthly Income Fund Limited

## INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TWENTYFOUR SELECT MONTHLY INCOME FUND LIMITED

### Report on the audit of the financial statements

#### Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of TwentyFour Select Monthly Income Fund Limited (the "Company") as at 30 September 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

#### What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 30 September 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### Basis for opinion

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

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

#### Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements of the Company, as required by the Crown Dependencies' Audit Rules and Guidance. We have fulfilled our other ethical responsibilities in accordance with these requirements.

#### Our audit approach

##### Overview



##### Materiality

- Overall Company materiality was £3.4 million which represents 2% of net assets.

##### Audit scope

- The Company is incorporated and based in Guernsey.
- We conducted our audit of the financial statements from information provided by Northern Trust International Fund Administration Services (Guernsey) Limited (the "Administrator") to whom the board of directors has delegated the provision of certain functions. The Company engages TwentyFour Asset Management LLP (the "Portfolio Manager") to manage the investment portfolio. We had significant interaction with both the Administrator and the Portfolio Manager in completing aspects of our audit work.
- We conducted all of our audit work in Guernsey, with the exception of our on-site visit to the Portfolio Manager in London at the planning stage of the audit.

##### Key audit matters

- Valuation of investments

# TwentyFour Select Monthly Income Fund Limited

## INDEPENDENT AUDITOR'S REPORT continued

TO THE MEMBERS OF TWENTYFOUR SELECT MONTHLY INCOME FUND LIMITED

### *Audit scope*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

### *Materiality*

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They 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.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

<i>Overall Company materiality</i>	£3.4 million (2017: £3.1 million)
<i>How we determined it</i>	2% of net assets
<i>Rationale for the materiality benchmark</i>	We believe that net assets is the most appropriate benchmark because this is the key metric of interest to members of the Company.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £169,700, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. 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.

# TwentyFour Select Monthly Income Fund Limited

## INDEPENDENT AUDITOR'S REPORT continued

TO THE MEMBERS OF TWENTYFOUR SELECT MONTHLY INCOME FUND LIMITED

### Key audit matter

### How our audit addressed the Key audit matter

#### *Valuation of investments*

Investments, valued at £162.8 million at year end, as shown within note 9 and 17, are measured at fair value through profit or loss and comprise a diverse portfolio of credit securities.

Investments represent the most significant balance on the Statement of Financial Position and, due to the market liquidity and assumptions underlying each security, the valuations are subject to management estimate, as detailed under note 3(ii)(a).

- We understood and evaluated the internal control environment in place at the Administrator and the Portfolio Manager over the valuation of the investment portfolio.
- We assessed the accounting policy for investment valuation for compliance with International Financial Reporting Standards. We performed testing to check that the investment valuation had been accounted for and applied consistently in accordance with the stated accounting policy.
- We tested the valuation of investments using independent third party price providers to reprice the portfolio. Prices were obtained from a range of sources, which included exchange traded and consensus prices. We sought to reprice the entire portfolio, however not all investments could be repriced, or certain investments that were repriced exceeded a tolerable variance threshold from the Company's own final year end prices. These investments were followed up by the engagement team and supporting evidence for these prices was obtained from the Administrator and/or the Portfolio Manager. We assessed the independence, reputation and reliability of the providers of the supporting evidence provided in these instances.
- For a sample of disposals, we compared the sales transaction price to the most recently recorded valuation prior to the disposal, which allowed us to assess the reliability of the valuation data at that point.
- No misstatements were identified and no matters were noted which required reporting to those charged with governance.

### Other information

The directors are responsible for the other information. The other information comprises all the information included in the Annual Report and Audited Financial Statements 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 any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

## INDEPENDENT AUDITOR'S REPORT continued

TO THE MEMBERS OF TWENTYFOUR SELECT MONTHLY INCOME FUND LIMITED

---

### Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, the requirements of Guernsey law and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

---

### Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

# TwentyFour Select Monthly Income Fund Limited

---

## INDEPENDENT AUDITOR'S REPORT continued

TO THE MEMBERS OF TWENTYFOUR SELECT MONTHLY INCOME FUND LIMITED

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

---

### Report on other legal and regulatory requirements

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

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

We have no exceptions to report arising from this responsibility.

We have nothing to report in respect of the following matters which we have reviewed:

- the directors' statement set out on page 13 in relation to going concern. As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern;
- the directors' statement that they have carried out a robust assessment of the principal risks facing the Company and the directors' statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the ten further provisions of the UK Corporate Governance Code specified for our review.

This report, including the opinion, has been prepared for and only for the members as a body in accordance with Section 262 of The Companies (Guernsey) Law, 2008 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Evelyn Brady  
For and on behalf of PricewaterhouseCoopers CI LLP  
Chartered Accountants and Recognised Auditor  
Guernsey, Channel Islands  
14 January 2019

# TwentyFour Select Monthly Income Fund Limited

## STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2018

		Year ended 30.09.18 £	Year ended 30.09.17 £
	Notes		
<b>Income</b>			
Interest income		11,969,011	11,253,737
Net foreign currency (losses)/gains	8	(1,289,838)	159,755
Net (loss)/gain on financial assets at fair value through profit or loss	9	(3,831,521)	11,113,207
<b>Total income</b>		<b>6,847,652</b>	<b>22,526,699</b>
<b>Expenses</b>			
Portfolio management fees	14	(1,201,499)	(1,095,655)
Directors' fees	14	(111,000)	(127,500)
Administration fees	15	(119,623)	(107,946)
AIFM management fees	15	(77,924)	(73,744)
Audit fee		(49,975)	(62,630)
Custody fees	15	(18,150)	(18,297)
Broker fees		(53,452)	(50,000)
Depository fees	15	(26,523)	(25,157)
Legal fees		(71,162)	(58,983)
Other expenses		(168,151)	(132,363)
<b>Total expenses</b>		<b>(1,897,459)</b>	<b>(1,752,275)</b>
<b>Total comprehensive income for the year</b>		<b>4,950,193</b>	<b>20,774,424</b>
<b>Earnings per Ordinary Share -</b>			
<b>Basic &amp; Diluted</b>	4	<b>0.029</b>	<b>0.132</b>

All items in the above statement derive from continuing operations.

The accompanying notes are an integral part of these Financial Statements.

# TwentyFour Select Monthly Income Fund Limited

## STATEMENT OF FINANCIAL POSITION

as at 30 September 2018

		30.09.18	30.09.17
Assets	Notes	£	£
<b>Current assets</b>			
Financial assets at fair value through profit and loss			
- Investments	9	162,829,994	148,499,775
- Derivative assets: Forward currency contracts	16	10,686	77,788
Amounts due from broker		3,019,184	-
Other receivables	10	2,984,168	2,762,950
Cash and cash equivalents		6,834,535	8,169,355
<b>Total current assets</b>		<b>175,678,567</b>	<b>159,509,868</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Amounts due to broker		4,810,956	3,676,479
Other payables	11	395,189	442,699
Financial liabilities at fair value through profit and loss			
- Derivative liabilities: Forward currency contracts	16	729,332	182,733
<b>Total current liabilities</b>		<b>5,935,477</b>	<b>4,301,911</b>
<b>Total net assets</b>		<b>169,743,090</b>	<b>155,207,957</b>
<b>Equity</b>			
Share capital account	12	177,393,446	157,001,121
Other reserves		(7,650,356)	(1,793,164)
<b>Total equity</b>		<b>169,743,090</b>	<b>155,207,957</b>
Ordinary Shares in issue	12	182,179,151	160,929,151
Net Asset Value per Ordinary Share (pence)	6	93.17	96.44

The Financial Statements on pages 41 to 76 were approved by the Board of Directors on 14 January 2019 and signed on its behalf by:

Claire Whittet  
Chair

Christopher Legge  
Director

The accompanying notes are an integral part of these Financial Statements.

# TwentyFour Select Monthly Income Fund Limited

## STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2018

	Notes	Share capital account £	Other reserves £	Total £
<b>Balance at 1 October 2017</b>		157,001,121	(1,793,164)	155,207,957
Issue of shares		20,817,500	-	20,817,500
Share issue costs		(244,606)	-	(244,606)
Income equalisation on new issues	5	(180,569)	180,569	-
Distributions paid		-	(10,987,954)	(10,987,954)
Total comprehensive income for the year		-	4,950,193	4,950,193
<b>Balance at 30 September 2018</b>		<b>177,393,446</b>	<b>(7,650,356)</b>	<b>169,743,090</b>
		Share capital account £	Other reserves £	Total £
<b>Balance at 1 October 2016</b>		148,691,163	(11,869,322)	136,821,841
Issue of shares		4,746,518	-	4,746,518
Reissue of treasury shares		3,705,827	-	3,705,827
Share issue costs		(100,022)	-	(100,022)
Income equalisation on new issues	5	(42,365)	42,365	-
Distributions paid		-	(10,740,631)	(10,740,631)
Total comprehensive income for the year		-	20,774,424	20,774,424
<b>Balance at 30 September 2017</b>		<b>157,001,121</b>	<b>(1,793,164)</b>	<b>155,207,957</b>

The accompanying notes are an integral part of these Financial Statements.



# TwentyFour Select Monthly Income Fund Limited

## STATEMENT OF CASH FLOWS

for the year ended 30 September 2018

	Notes	Year ended 30.09.18 £	Year ended 30.09.17 £
<b>Cash flows used in operating activities</b>			
Total comprehensive income for the year		4,950,193	20,774,424
Adjustments for:			
Net loss/(gain) on financial assets at fair value through profit or loss	9	3,831,521	(11,113,207)
Amortisation adjustment under effective interest rate method	9	(783,913)	(1,180,151)
Unrealised loss/(gain) on derivatives	8	613,703	(174,516)
Exchange (gains)/losses on cash and cash equivalents		(5,502)	3,334
Increase in other receivables	10	(221,218)	(284,985)
(Decrease)/increase in other payables	11	(47,510)	223,668
Purchase of investments	9	(71,864,425)	(119,732,379)
Sale of investments	9	52,601,891	114,005,314
Net cash (used in)/generated from operating activities		(10,925,260)	2,521,502
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares	12	20,817,500	4,746,518
Proceeds from re-issuance of treasury shares	12	-	3,705,827
Share issue costs	12	(244,606)	(100,022)
Dividend distribution	19	(10,987,956)	(10,740,631)
Net cash inflow/(outflow) from financing activities		9,584,938	(2,388,308)
(Decrease)/increase in cash and cash equivalents		(1,340,322)	133,194
Cash and cash equivalents at beginning of year		8,169,355	8,039,495
Exchange gains/(losses) on cash and cash equivalents		5,502	(3,334)
Cash and cash equivalents at end of year		6,834,535	8,169,355

The accompanying notes are an integral part of these Financial Statements.

# TwentyFour Select Monthly Income Fund Limited

---

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2018

### 1. General Information

TwentyFour Select Monthly Income Fund Limited (the "Company") was incorporated with limited liability in Guernsey, as a closed-ended investment company on 12 February 2014. The Company's Shares were listed with a Premium Listing on the Official List of the UK Listing Authority and admitted to trading on the Main Market of the London Stock Exchange ("LSE") on 10 March 2014.

The investment objective and policy is set out in the Summary Information on page 3.

The Portfolio Manager of the Company is TwentyFour Asset Management LLP (the "Portfolio Manager").

### 2. Principal Accounting Policies

#### a) Basis of preparation and Statement of compliance

The Financial Statements have been prepared in accordance with International Financial Reporting Financial Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are in compliance with the Companies (Guernsey) Law, 2008.

#### b) Presentation of information

The Financial Statements have been prepared on a going concern basis under the historical cost convention adjusted to take account of the revaluation of the Company's financial assets and liabilities at fair value through profit or loss.

#### c) Standards, amendments and interpretations issued but not yet effective

At the reporting date of these Financial Statements, the following standards, interpretations and amendments, which have not been applied in these Financial Statements, were in issue but not yet effective:

- IFRS 9 Financial Instruments (Effective 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (Effective 1 January 2018)

IFRS 9 'Financial Instruments' amends IAS 39. IFRS 9 specifies how an entity should classify and measure financial assets, including some hybrid contracts. The standard requires all financial assets to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of IAS 39. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria.

The standard also results in one impairment method, replacing the numerous impairment methods in IAS 39 that arise from the different classification.

#### *General approach*

With the exception of purchased or originated credit impaired financial assets, expected credit losses ("ECL") are required to be measured through a loss allowance at an amount equal to:

- the 12-month ECL (ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- full lifetime ECL (ECL that result from all possible default events over the life of the financial instrument).

The Board have assessed the expected impact of IFRS 9 and are satisfied its application will not change the measurement and presentation of the current financial instruments as they will continue to be measured at fair value through profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 2. Principal Accounting Policies continued

#### c) Standards, amendments and interpretations issued but not yet effective continued

Therefore no material impact on the Company's financial statements is expected on adoption of IFRS 9.

IFRS 15 'Revenue from Contracts with Customers' was published in May 2016 and specifies how and when to recognise revenue as well as requiring entities to provide users of financial statements with more informative and relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. Material revenue streams have been reviewed and it is not anticipated that there will be a material impact on timing of, recognition or gross up for principal/agent considerations. There will be no material impact on the Company's financial statements.

There are certain other current standards, amendments and interpretations that are not relevant to the Company's operations.

#### d) Financial assets at fair value through profit or loss

##### *Classification*

The Company classifies its investments in credit securities and derivatives as financial assets at fair value through profit or loss.

This category has two sub-categories: financial assets or financial liabilities held for trading; and those designated at fair value through profit or loss at inception.

##### (i) Financial assets and liabilities held for trading

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are categorised as held for trading. The Company does not classify any derivatives as hedges in a designated hedging relationship and therefore does not apply hedge accounting.

##### (ii) Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities designated at fair value through profit or loss at inception are financial instruments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with the Company's documented investment strategy.

The Company's policy requires the Portfolio Manager and the Board of Directors to evaluate the information about these financial assets and liabilities on a fair value basis together with other related financial information.

##### *Recognition, derecognition and measurement*

Regular purchases and sales of investments are recognised on the trade date, the date on which the Company commits to purchase or sell the investment. Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed as incurred in the Statement of Comprehensive Income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

The Company may invest in any category of credit security, including, without prejudice to the generality of the foregoing, bank capital, corporate bonds, high yield bonds, leveraged loans, payment-in-kind notes and asset backed securities.

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 2. Principal Accounting Policies continued

#### d) Financial assets at fair value through profit or loss continued

The Company records any principal repayments as they arise and realises a gain or loss in the net gains on financial assets at fair value through profit or loss in the Statement of Comprehensive Income in the period in which they occur.

The interest income arising on these Credit Securities is recognised on a time-proportionate basis using the effective interest rate method and shown within income in the Statement of Comprehensive Income.

#### *Fair value estimation*

##### i) Credit Securities traded or dealt on an active market or exchange

Credit Securities that are traded or dealt on an active market or exchange are valued by reference to their quoted mid-market price as at the close of trading on the reporting date as the Directors deem the mid-market price to be a reasonable approximation of an exit price.

##### ii) Credit Securities not traded or dealt on an active market or exchange

Credit Securities which are not traded or dealt on active markets or exchanges are valued by reference to their mid-price, as at the close of business on the reporting date as determined by an independent price vendor. If a price cannot be obtained from an independent price vendor, or where the Portfolio Manager determines that the provided price is not an accurate representation of the fair value of the Credit Security, the Portfolio Manager will source mid-price quotes at the close of business on the reporting date from independent third party brokers/dealers for the relevant security. If no mid-price is available then a bid-price will be used.

In cases where no third party price is available (either from an independent price vendor or independent third party brokers/dealers), or where the Portfolio Manager determines that the provided price is not an accurate representation of the fair value of the Credit Security, the Portfolio Manager will determine the valuation based on the Portfolio Manager's valuation policy. This may include the use of a comparable arm's length transaction, reference to other securities that are substantially the same, discounted cash flow analysis and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

#### *Interest rate swaps*

Over-the-counter derivative contracts such as Interest Rate Swaps are valued on a weekly basis. This may be done using reference to data supplied from an independent data source or an alternative vendor as deemed suitable by the Directors. Where data from an independent data source is not available, the valuation may be done by using the counterparty's valuation provided that the valuation is approved or verified by a party who is approved for the purpose by the Directors and who is independent of the counterparty.

Interest rate swaps are derivative contracts and as such are recognised at fair value on the date on which they are entered into and subsequently measured at their fair value. Fair value is determined by rates provided by brokers. All interest rate swaps are carried as assets when fair value is positive and as liabilities when fair value is negative. Gains and losses on interest rate swaps are recognised as part of net gains and losses on financial assets at fair value through profit or loss in the Statement of Comprehensive Income.

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 2. Principal Accounting Policies continued

#### d) Financial assets at fair value through profit or loss continued

##### *Forward foreign currency contracts*

Forward foreign currency contracts are derivative contracts and as such are recognised at fair value on the date on which they are entered into and subsequently measured at their fair value. Fair value is determined by rates in active currency markets. All forward foreign currency contracts are carried as assets when fair value is positive and as liabilities when fair value is negative. Gains and losses on forward currency contracts are recognised as part of net foreign currency gains in the Statement of Comprehensive Income.

##### *Impairment*

Financial assets that are stated at cost or amortised cost are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the Statement of Comprehensive Income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate.

Any impairment losses impacting the amortised cost disclosed for the financial assets at fair value through profit and loss are recognised in the Statement of Comprehensive Income as realised losses within the net gain/loss on financial assets at fair value through profit or loss.

#### e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Derivatives are not settled on a net basis and therefore derivative assets and liabilities are shown gross.

#### f) Amounts due from and due to brokers

Amounts due from and to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or delivered on the statement of financial position date respectively. These amounts are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

#### g) Income

Interest income is recognised on a time-proportionate basis using the effective interest rate method. Discounts received or premiums paid in connection with the acquisition of Credit Securities are amortised into interest income using the effective interest rate method over the expected life of the related security.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Portfolio Manager estimates cash flows considering the expected life of the financial instrument, including future credit losses and deferred interest payments. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate and all other premiums or discounts.

# TwentyFour Select Monthly Income Fund Limited

---

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 2. Principal Accounting Policies continued

#### h) Cash and cash equivalents

Cash and cash equivalents comprises deposits held at call with banks and other short-term investments in an active market with original maturities of three months or less and bank overdrafts. Bank overdrafts are included in current liabilities in the Statement of Financial Position.

#### i) Share capital

Ordinary Shares are classified as equity. Incremental costs directly attributable to the issue of Ordinary Shares are shown in equity as a deduction, net of tax, from the proceeds and disclosed in the Statement of Changes in Equity.

Repurchased Tendered Shares are treated as a distribution of capital and deducted from the Share Capital account.

#### j) Other reserves

Other reserves consist of equalisation on issues of new shares, distributions paid and total comprehensive income for the year.

#### k) Foreign currency translation

##### *Functional and presentation currency*

Items included in the financial statements are measured using Sterling, the currency of the primary economic environment in which the Company operates (the “functional currency”). The Financial Statements are presented in Sterling, which is the Company’s presentation currency.

##### *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 assets and liabilities are translated into the functional currency using the exchange rate prevailing at the Statement of Financial Position date.

Foreign exchange gains and losses relating to the financial assets and liabilities carried at fair value through profit or loss are presented in the Statement of Comprehensive Income.

#### l) Transaction costs

Transaction costs on financial assets at fair value through profit or loss include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognised in the Statement of Comprehensive Income.

#### m) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board. The Directors are of the opinion that the Company is engaged in a single segment of business, being investments in Credit Securities. The Directors manage the business in this way. For additional information refer to note 18.

#### n) Expenses

All expenses are included in the Statement of Comprehensive Income on an accruals basis and are recognised through profit or loss in the Statement of Comprehensive Income.

# TwentyFour Select Monthly Income Fund Limited

---

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 2. Principal Accounting Policies continued

#### o) Other receivables

Other receivables are amounts due in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

#### p) Other payables

Other payables are obligations to pay for services that have been acquired in the ordinary course of business. Other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

#### q) Dividend distributions

Dividend distributions to the Company's shareholders are recognised as liabilities in the Company's financial statements and disclosed in the Statement of Changes in Equity in the period in which the dividends are approved by the Board.

#### r) Income equalisation on new issues

In order to ensure there are no dilutive effects on earnings per share for current shareholders when issuing new shares, a transfer is made between share capital and other reserves to reflect that amount of income included in the purchase price of the new shares.

#### s) Treasury Shares

The Company has the right to issue and purchase up to 14.99% of the total number of its own shares, as disclosed in note 12.

Shares held in Treasury are excluded from calculations when determining Earnings per Ordinary Share or Net Asset Value per Ordinary Share as detailed in notes 4 and 6.

### 3. Significant accounting judgements, estimates and assumptions

The preparation of the Company's Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

#### (i) Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the Financial Statements:

##### *Functional currency*

As disclosed in note 2(k), the Company's functional currency is Sterling. Sterling is the currency in which the Company measures its performance and reports its results, as well as the currency in which it receives subscriptions from its investors. Dividends are also paid to its investors in Sterling. The Directors believe that Sterling best represents the functional currency.

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 3. Significant accounting judgements, estimates and assumptions continued

#### (ii) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the Financial Statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising which are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

#### *(a) Fair value of securities not quoted in active markets*

The Company carries its investments in Credit Securities at fair value, with changes in value being recognised in the Statement of Comprehensive Income. In cases where prices of Credit Securities are not quoted in an active market, the Portfolio Manager will obtain prices determined at the close of business on the reporting date from an independent price vendor. The Portfolio Manager exercises its judgement on the quality of the independent price vendor and information provided. If a price cannot be obtained from an independent price vendor or where the Portfolio Manager determines that the provided price is not an accurate representation of the fair value of the Credit Security, the Portfolio Manager will source prices from independent third party brokers or dealers for the relevant security, which may be indicative rather than tradable. Where no third party price is available, or where the Portfolio Manager determines that the third party quote is not an accurate representation of the fair value, the Portfolio Manager will determine the valuation based on the Portfolio Manager's valuation policy. This may include the use of a comparable arm's length transaction, reference to other securities that are substantially the same, discounted cash flow analysis and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs. No Credit Securities were priced by the Portfolio Manager during the year or any previous year.

#### *(b) Estimated life of Credit Securities*

In determining the estimated life of the Credit Securities held by the Company, the Portfolio Manager estimates the remaining life of the security with respect to expected prepayment rates, default rates and loss rates together with other information available in the market underlying the security. The estimated life of the Credit Securities, as determined by the Portfolio Manager, impacts the effective interest rate of the Credit Securities which in turn impacts the calculation of income as discussed in note 2(g).

#### *(c) Determination of observable inputs*

As discussed in note 17, when determining the levels of investments within the fair value hierarchy, the determination of what constitutes 'observable' requires significant judgement by the Company. The Company considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

### 4. Earnings per Ordinary Share - Basic & Diluted

The earnings per Ordinary Share - Basic and Diluted of 2.9p (30 September 2017: 13.2p) has been calculated based on the weighted average number of Ordinary Shares of 167,986,686 (30 September 2017: 156,992,064) and a net gain for the year of £4,950,193 (30 September 2017: £20,774,424).



# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 5. Income on equalisation of new issues

In order to ensure there were no dilutive effects on earnings per share for current shareholders when issuing new shares, earnings have been calculated in respect of the accrued income at the time of purchase and a transfer has been made from share capital to income to reflect this. The transfer for the year amounted to £180,569 (30 September 2017: £42,365).

### 6. Net Asset Value per Ordinary Share

The net asset value of each Share of 93.17p (30 September 2017: 96.44p) is determined by dividing the net assets of the Company attributed to the Shares of £169,743,090 (30 September 2017: £155,207,957) by the number of Shares in issue at 30 September 2018 of 182,179,151 (30 September 2017: 160,929,151).

### 7. Taxation

The Company has been granted Exempt Status under the terms of The Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 to income tax in Guernsey. Its liability for Guernsey taxation is limited to an annual fee of £1,200 (30 September 2017: £1,200).

### 8. Net foreign currency (losses)/gains

	Year ended 30.09.18 £	Year ended 30.09.17 £
Movement in net unrealised (loss)/gain on forward currency contracts	(613,703)	174,516
Movement in unrealised (loss)/gain on spot currency contracts	(10,890)	503
Realised losses on forward currency contracts	(642,348)	(335,369)
Realised currency gains on receivables/payables	51	335,299
Unrealised currency losses on receivables/payables	(22,948)	(15,194)
	<u>(1,289,838)</u>	<u>159,755</u>

# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 9. Investments

	Year ended 30.09.18 £	Year ended 30.09.17 £
Financial assets at fair value through profit and loss:		
Unlisted Investments:		
Opening amortised cost	137,736,071	128,103,985
Purchases at cost	72,998,902	121,111,167
Proceeds on sale/principal repayment	(55,621,075)	(112,873,124)
Amortisation adjustment under effective interest rate method	783,913	1,180,151
Realised gain on sale/principal repayment	4,609,061	9,282,593
Realised loss on sale/principal repayment	(2,093,184)	(9,068,701)
Closing amortised cost	158,413,688	137,736,071
Unrealised gain on investments	6,821,995	12,539,146
Unrealised loss on investments	(2,405,689)	(1,775,442)
Fair value	162,829,994	148,499,775
	Year ended 30.09.18 £	Year ended 30.09.17 £
Realised gain on sale/principal repayment	4,609,061	9,282,593
Realised loss on sale/principal repayment	(2,093,184)	(9,068,701)
(Decrease)/increase in unrealised gain	(5,717,151)	4,367,856
(Increase)/decrease in unrealised loss	(630,247)	6,531,459
Net (loss)/gain on financial assets at fair value through profit or loss	(3,831,521)	11,113,207

# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 10. Other receivables

	As at 30.09.18	As at 30.09.17
	£	£
Interest income receivable	2,845,755	2,635,034
Prepaid expenses	39,195	14,833
Dividends receivable	99,190	112,580
Foreign currency receivable	28	503
	<u>2,984,168</u>	<u>2,762,950</u>

### 11. Other payables

	As at 30.09.18	As at 30.09.17
	£	£
Portfolio management fees payable	205,615	290,302
Directors' fees payable	27,750	31,350
Administration fees payable	23,440	28,004
AIFM management fees payable	18,905	18,528
Audit fees payable	51,500	50,000
Other expenses payable	53,960	21,301
Depositary fees payable	2,150	2,054
Custody fees payable	1,454	1,160
Foreign currency payable	10,415	-
	<u>395,189</u>	<u>442,699</u>

### 12. Share Capital

#### Authorised Share Capital

The Directors may issue an unlimited number of Ordinary Shares at no par value and an unlimited number of Ordinary Shares with a par value.

#### Issued Share Capital

	As at 30.09.18	As at 30.09.17
	£	£
<b>Ordinary Shares</b>		
Share Capital at the beginning of the year	157,001,121	148,691,163
Issue of shares	20,817,500	4,746,518
Share issue costs	(244,606)	(100,022)
Re-issuance of treasury shares	-	3,705,827
Income equalisation on new issues	(180,569)	(42,365)
Total Share Capital at the end of the year	<u>177,393,446</u>	<u>157,001,121</u>

# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 12. Share Capital continued

#### Issued Share Capital continued

	30.09.18	30.09.17
	£	£
<b>Treasury Shares</b>		
Share Capital at the beginning of the year	-	3,705,827
Re-issued shares	-	(3,705,827)
	<u>-</u>	<u>-</u>
Total Treasury Shares at the end of the year	<u>-</u>	<u>-</u>

#### Reconciliation of number of Shares

	30.09.18	30.09.17
	Shares	Shares
<b>Ordinary Shares</b>		
Shares at the beginning of the year	160,929,151	152,079,151
Issue of shares	21,250,000	5,019,383
Re-issuance of treasury shares	-	3,830,617
	<u>182,179,151</u>	<u>160,929,151</u>

The Ordinary Shares carry the following rights:

- the Ordinary Shares carry the right to receive all income of the Company attributable to the Ordinary Shares.
- the Shareholders present in person or by proxy or present by a duly authorised representative at a general meeting has, on a show of hands, one vote and, on a poll, one vote for each Share held.

#### Reconciliation of number of Treasury Shares

	30.09.18	30.09.17
	Shares	Shares
<b>Treasury Shares</b>		
Shares at the beginning of the year	-	3,830,617
Reissue of treasury shares	-	(3,830,617)
	<u>-</u>	<u>-</u>
Total Shares held in treasury at the end of the year	<u>-</u>	<u>-</u>

# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 12. Share Capital continued

The Company has the right to issue and purchase up to 14.99% of the total number of its own shares at £0.01 each, to be classed as Treasury Shares and may cancel those Shares or hold any such Shares as Treasury Shares, provided that the number of Shares held as Treasury Shares shall not at any time exceed 10% of the total number of Shares of that class in issue at that time or such amount as provided in the Companies Law.

On 13 February 2015, the Company purchased 14,173,887 Ordinary Shares of £0.01 at a price of 94.90p to be held in treasury. The total amount paid to purchase these shares was £13,451,019 and has been deducted from the shareholders' equity. The Company had the right to re-issue these shares at a later date. All shares issued were fully paid. During the year ended 2017 all 3,830,617 remaining treasury shares were re-issued for a total consideration of £3,705,827. There were no treasury shares held during the current financial year.

Shares held in Treasury are excluded from calculations when determining Earnings per Ordinary Share or Net Asset Value per Ordinary Share as detailed in notes 4 and 6.

### 13. Analysis of Financial Assets and Liabilities by Measurement Basis as per Statement of Financial Position

	Financial assets at fair value through profit and loss £	Loans and receivables £	Total £
<b>30 September 2018</b>			
<i>Financial Assets</i>			
Financial assets at fair value through profit and loss			
-Investments			
-Bonds	106,254,172	-	106,254,172
-Asset backed securities	56,575,822	-	56,575,822
-Derivative assets: Forward currency contracts	10,686	-	10,686
Amounts due from broker	-	3,019,184	3,019,184
Other receivables (excluding prepaid expenses)	-	2,944,973	2,944,973
Cash and cash equivalents	-	6,834,535	6,834,535
	<u>162,840,680</u>	<u>12,798,692</u>	<u>175,639,372</u>

# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 13. Analysis of Financial Assets and Liabilities by Measurement Basis as per Statement of Financial Position continued

	Financial liabilities at fair value through profit and loss £	Other financial liabilities £	Total £
<b>30 September 2018</b>			
<i>Financial Liabilities</i>			
Amounts due to broker	-	4,810,956	4,810,956
Other payables	-	395,189	395,189
Financial liabilities at fair value through profit and loss			
-Derivative liabilities: Forward currency contracts	729,332	-	729,332
	<u>729,332</u>	<u>5,206,145</u>	<u>5,935,477</u>
	Financial assets at fair value through profit and loss £	Loans and receivables £	Total £
<b>30 September 2017</b>			
<i>Financial Assets</i>			
Financial assets at fair value through profit and loss			
-Investments			
-Bonds	101,672,047	-	101,672,047
-Asset backed securities	46,827,728	-	46,827,728
-Derivative assets: Forward currency contracts	77,788	-	77,788
Other receivables (excluding prepaid expenses)	-	2,748,117	2,748,117
Cash and cash equivalents	-	8,169,355	8,169,355
	<u>148,577,563</u>	<u>10,917,472</u>	<u>159,495,035</u>

# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 13. Analysis of Financial Assets and Liabilities by Measurement Basis as per Statement of Financial Position continued

	Financial liabilities at fair value through profit and loss	Other financial liabilities	Total
	£	£	£
<b>30 September 2017</b>			
<i>Financial Liabilities</i>			
Amounts due to broker	-	3,676,479	3,676,479
Other payables	-	442,699	442,699
Financial liabilities at fair value through profit and loss			
-Derivative liabilities: Forward currency contracts	182,733	-	182,733
	<u>182,733</u>	<u>4,119,178</u>	<u>4,301,911</u>

### 14. Related Parties

#### a) Directors' Remuneration & Expenses

The Directors of the Company are remunerated for their services at such a rate as the Directors determine. The aggregate fees of the Directors will not exceed £150,000.

The Directors' fees for the year and the outstanding fees at year end are as follows.

	30.09.18 £	30.09.17 £
Claire Whittet (Chair of the Board)	42,000	35,000
Christopher Legge (Audit Committee Chairman)	37,000	32,500
Thomas Emch (retired from the Board 30.09.17)	-	30,000
Ian Martin (MEC Chairman)	32,000	30,000
Total Directors' fees	<u>111,000</u>	<u>127,500</u>
	As at 30.09.18 £	As at 30.09.17 £
Directors' fee payable (note 11)	<u>27,750</u>	<u>31,350</u>

# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 14. Related Parties continued

#### b) Shares held by related parties

The Directors of the Company held the following shares beneficially:

	30.09.18	30.09.17
	Shares	Shares
Claire Whittet	25,000	25,000
Christopher Legge	50,000	50,000
Ian Martin	35,000	35,000
Thomas Emch*	-	25,000

\*Resigned 30 September 2017

Directors are entitled to receive the dividends on any shares held by them during the year. Dividends declared by the Company are set out in note 19.

As at 30 September 2018, the Portfolio Manager held no Shares (30 September 2017: no Shares) of the Issued Share Capital. Partners and employees of the Portfolio Manager increased their holdings during the year, and held 1,153,258 Shares (30 September 2017: 1,031,766), which is 0.63% (30 September 2017: 0.64%) of the Issued Share Capital.

#### c) Portfolio Manager

The portfolio management fee is payable to the Portfolio Manager, TwentyFour Asset Management LLP, monthly in arrears at a rate of 0.75% per annum of the lower of NAV, which is calculated weekly on each valuation day, or market capitalisation of each class of shares. Total portfolio management fees for the year amounted to £1,201,499 (30 September 2017: £1,095,655) of which £205,615 (30 September 2017: £290,302) is payable at year end. The Portfolio Management Agreement dated 17 February 2014 remains in force until determined by the Company or the Portfolio Manager giving the other party not less than twelve months' notice in writing. Under certain circumstances, the Company or the Portfolio Manager is entitled to immediately terminate the agreement in writing.

The Portfolio Manager is also entitled to a commission of 0.175% of the aggregate gross offering proceeds plus any applicable VAT in relation to any issue of new Shares, following admission, in consideration of marketing services that it provides to the Company. During the year, the Portfolio Manager received £36,431 (30 September 2017: £12,038) in commission.

### 15. Material Agreements

#### a) Alternative Investment Fund Manager ("AIFM")

The Company's AIFM is Maitland Institutional Services Limited. In consideration for the services provided by the AIFM under the AIFM Agreement the AIFM is entitled to receive from the Company a minimum fee of £20,000 per annum and fees payable quarterly in arrears at a rate of 0.07% of the Net Asset Value of the Company below £50 million, 0.05% on Net Assets between £50 million and £100 million and 0.03% on Net Assets in excess of £100 million. During the year, AIFM fees of £77,924 (30 September 2017: £73,744) were charged to the Company, of which £18,905 (30 September 2017: £18,528) remained payable at the end of the year.



# TwentyFour Select Monthly Income Fund Limited

---

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 15. Material Agreements continued

#### b) Administrator and Secretary

Administration fees are payable to Northern Trust International Fund Administration Services (Guernsey) Limited monthly in arrears at a rate of 0.06% of the Net Asset Value of the Company below £100 million, 0.05% on Net Assets between £100 million and £200 million and 0.04% on Net Assets in excess of £200 million as at the last business day of the month subject to a minimum of £75,000 for each year. In addition, an annual fee of £25,000 will be charged for corporate governance and company secretarial services. During the year, administration and secretarial fees of £119,623 (30 September 2017: £107,946) were charged to the Company, of which £23,440 (30 September 2017: £28,004) remained payable at the end of the year.

#### c) Broker

For its services as the Company's broker, Numis Securities Limited (the "Broker") is entitled to receive a retainer fee of £50,000 per annum and also a commission of 1% on all tap issues. During the year, the Broker received £208,175 (30 September 2017: £84,593) in commission, which is charged as a cost of issuance.

#### d) Depositary

Depositary's fees are payable to Northern Trust (Guernsey) Limited monthly in arrears at a rate of 0.0175% of the NAV of the Company below £100 million, 0.0150% on Net Assets between £100 million and £200 million and 0.0125% on Net Assets in excess of £200 million as at the last business day of the month subject to a minimum of £25,000 for each year. During the year, depositary fees of £26,523 (30 September 2017: £25,157) were charged to the Company, of which £2,150 (30 September 2017: £2,054) remained payable at the end of the year.

The Depositary is also entitled to a Global Custody fee of a minimum of £8,500 per annum plus transaction fees. Total Global Custody fees and charges for the year amounted to £18,150 (30 September 2017: £18,297) of which £1,454 (30 September 2017: £1,160) is due and payable at the end of the year.

### 16. Financial Risk Management

The Company's activities expose it to a variety of financial risks: Market risk (including price risk, reinvestment risk, interest rate risk and foreign currency risk), credit risk, liquidity risk and capital risk.

The Company's financial instruments include financial assets/liabilities at fair value through profit or loss, cash and cash equivalents, amounts due to/from broker, other receivables and other payables. The techniques and instruments utilised for the purposes of efficient portfolio management are those which are reasonably believed by the Board to be economically appropriate to the efficient management of the Company.

#### Market risk

Market risk embodies the potential for both losses and gains and includes foreign currency risk, interest rate risk, price risk and reinvestment risk. The Company's strategy on the management of market risk is driven by the Company's investment objective. The Company's investment objective is to generate attractive risk adjusted returns principally through investment in Credit Securities.

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 16. Financial Risk Management continued

#### Market risk continued

##### (i) Price risk

The underlying investments comprised in the portfolio are subject to price risk. The Company is therefore at risk that market events may affect performance and in particular may affect the value of the Company's investments which are valued on a mark to market and mark to model basis. Price risk is risk associated with changes in market prices or rates, including interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, national and international political circumstances. The Company's policy is to manage price risk by holding a diversified portfolio of assets, through its investments in Credit Securities.

The Company's policy also stipulates that at purchase no more than 5% of the portfolio value can be exposed to any single Credit Security or issuer of Credit Securities.

The price of a Credit Security can be affected by a number of factors, including: (i) changes in the market's perception of the underlying assets backing the security; (ii) economic and political factors such as interest rates and levels of unemployment and taxation which can have an impact on the arrears, foreclosures and losses incurred with respect to the pool of assets backing the security; (iii) changes in the market's perception of the adequacy of credit support built into the security's structure to protect against losses caused by arrears and foreclosures; (iv) changes in the perceived creditworthiness of the originator of the security or any other third parties to the transaction; (v) the speed at which mortgages or loans within the pool are repaid by the underlying borrowers (whether voluntary or due to arrears or foreclosures).

##### (ii) Reinvestment risk

Reinvestment risk is the risk that future coupons from a bond will not be reinvested at the yield prevailing when the bond was initially purchased.

A key determinant of a bond's yield is the price at which it is purchased and, therefore, when the market price of bonds generally increases, the yield of bonds purchased generally decreases. As such, the overall yield of the portfolio, and therefore the level of dividends payable to Shareholders, would fall to the extent that the market prices of Credit Securities generally rise and the proceeds of Credit Securities held by the Company that mature or are sold are not able to be reinvested in Credit Securities with a yield comparable to that of the portfolio as a whole. The Company assesses reinvestment risk on at least a monthly basis by calculating the projected amortisation profile of the Company across the next three years. In addition, changes in the Company's yield and income are assessed over the same timeframe as bonds redeem or mature to identify any periods where reinvestment risk may be more significant.

#### *Price sensitivity analysis*

The following details the Company's sensitivity to movement in market prices. The analysis is based on a 10% and 5% (30 September 2017: 10% and 5%) increase or decrease in market prices. This represents management's best estimate of a reasonable possible shift in market prices, having regard to historical volatility.

At 30 September 2018, if the market prices had been 10% and 5% (30 September 2017: 10% and 5%) higher with all other variables held constant, the increase in the net assets attributable to equity Shareholders would have been £16,282,999 and £8,141,500 respectively (30 September 2017: £14,849,978 and £7,424,989). The total comprehensive income for the year would have also increased by £16,282,999 and £8,141,500 (30 September 2017: £14,849,978 and £7,424,989). An equal change in the opposite direction would have decreased the net assets attributable to equity Shareholders and total comprehensive income respectively.

Actual trading results may differ from the above sensitivity analysis and those differences may be material.

# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 16. Financial Risk Management continued

#### (iii) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of financial assets at fair value through profit or loss.

The tables below summarise the Company's exposure to interest rate risk:

	Floating rate	Fixed rate	Non-interest bearing	Total
	£	£	£	£
<b>As at 30 September 2018</b>				
Investments	41,553,484	121,276,510	-	162,829,994
Derivative assets: Forward				
currency contracts	-	-	10,686	10,686
Amounts due from broker	-	-	3,019,184	3,019,184
Other receivables	-	-	2,984,168	2,984,168
Cash and cash equivalents	6,834,535	-	-	6,834,535
Derivative liabilities: Forward				
currency contracts	-	-	(729,332)	(729,332)
Amounts due to broker	-	-	(4,810,956)	(4,810,956)
Other payables	-	-	(395,189)	(395,189)
<b>Net current assets</b>	<b>48,388,019</b>	<b>121,276,510</b>	<b>78,561</b>	<b>169,743,090</b>
<b>As at 30 September 2017</b>				
Investments	37,579,778	110,919,997	-	148,499,775
Derivative assets:				
Forward currency	-	-	77,788	77,788
Amounts due from broker	-	-	-	-
Other receivables	-	-	2,762,950	2,762,950
Cash and cash equivalents	8,169,355	-	-	8,169,355
Derivative liabilities: Forward				
currency contracts	-	-	(182,733)	(182,733)
Amounts due to broker	-	-	(3,676,479)	(3,676,479)
Other payables	-	-	(442,699)	(442,699)
<b>Net current assets</b>	<b>45,749,133</b>	<b>110,919,997</b>	<b>(1,461,173)</b>	<b>155,207,957</b>

The Company holds fixed rate and floating rate financial instruments which, based on current portfolio duration, have low exposure to fair value interest rate risk as, when the short-term interest rates increase, the interest rate on a floating rate note will increase. The maximum time to re-fix interest rates is six months and therefore the Company has low interest rate risk and, as such it is not deemed necessary to perform sensitivity analysis over interest rate risk.

# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 16. Financial Risk Management continued

#### (iii) Interest rate risk continued

As at 30 September 2018, 71% of the Company's net current asset position was invested in fixed rate securities, however the overall credit spread duration of the Company was 3.6 years. A credit spread duration of 3.6 indicates that the portfolio's value will rise or fall by 3.6bp should the reference credit spread rise or fall by 1bp. The value of Credit securities may be affected by interest rate movements. Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates, however the underlying cash positions will not be affected.

The Company's continuing position in relation to interest rate risk is monitored on a weekly basis by the Portfolio Manager as part of its review of the weekly Net Asset Value calculations prepared by the Company's Administrator.

#### (iv) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company invests predominantly in non-Sterling assets while its Shares are denominated in Sterling, its expenses are incurred in Sterling and its presentational currency is Sterling. Therefore the Statement of Financial Position may be significantly affected by movements in the exchange rate between foreign currencies and Sterling. The Company manages the exposure to currency movements by using spot and forward foreign exchange contracts, rolling forward on a periodic basis.

At year end, the Company had six (30 September 2017: four) open forward currency contracts and three (30 September 2017: one) open spot currency contracts.

#### Open forward currency contracts

	Contract values	Outstanding contracts	Mark to market	Unrealised gains/(losses)
	30.09.18	30.09.18	30.09.18	30.09.18
	Currency	£	£	£
Six Sterling forward foreign currency contracts totalling:				
1 CHF forward foreign currency contract	(40,495)	(31,731)	(31,817)	(86)
3 EUR forward foreign currency contract	(85,850,355)	(76,100,188)	(76,512,544)	(412,356)
2 USD forward foreign currency contract	(25,230,064)	(19,025,947)	(19,332,151)	(306,204)
				<u>(718,646)</u>

	Contract values	Outstanding contracts	Mark to market	Unrealised gains/(losses)
	30.09.17	30.09.17	30.09.17	30.09.17
	Currency	£	£	£
Four Sterling forward foreign currency contracts totalling:				
3 EUR forward foreign currency contract	(72,088,376)	(63,616,129)	(63,541,781)	74,348
1 USD forward foreign currency contract	(35,210,847)	(26,051,426)	(26,230,719)	(179,293)
				<u>(104,945)</u>

# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 16. Financial Risk Management continued

(iv) Foreign currency risk continued

#### Open spot currency contracts

	Contract values	Outstanding contracts	Mark to market	Unrealised gains/(losses)
	30.09.18	30.09.18	30.09.18	30.09.18
	Currency	£	£	£
One Sterling spot foreign currency contract				
2 EUR spot currency contract	901,166	802,804	802,657	(147)
1 GBP spot currency contract	(2,844,503)	(2,171,045)	(2,181,285)	(10,240)
				<u>(10,387)</u>

	Contract values	Outstanding contracts	Mark to market	Unrealised gains/(losses)
	30.09.17	30.09.17	30.09.17	30.09.17
	Currency	£	£	£
One Sterling spot foreign currency contract				
1 EUR spot currency contract	(464,992)	409,226	409,729	503
				<u>503</u>

As at 30 September 2018 and 2017 the Company held the following assets and liabilities denominated in currencies other than Pound Sterling:

	30.09.18	30.09.17
	£	£
Investments	97,050,699	91,162,736
Cash and cash equivalents	678,883	350,448
Amounts due from broker and other receivables	4,365,964	1,320,458
Less: Amounts due to broker	(3,973,710)	(3,284,699)
Less: Open forward currency contracts	(95,876,512)	(89,772,500)
Add: Open spot currency contracts	(1,378,627)	409,729
	<u>866,697</u>	<u>186,172</u>

The following tables summarise the sensitivity of the Company's assets and liabilities to changes in foreign exchange movements between Euro, US Dollar and Swiss Franc, and the Company functional currency of Sterling as at 30 September 2018 and 2017. The analysis is based on the assumption that the relevant foreign exchange rate increased/decreased by the percentage disclosed in the table, with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the foreign exchange rates, having regard to historical volatility of those rates.

# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 16. Financial Risk Management continued

#### (iv) Foreign currency risk continued

	30.09.18 £	30.09.17 £
Impact on Statement of Comprehensive Income and Equity in response to a:		
- 10% (30.09.17: 10%) increase in EUR/GBP	(31,533)	(747,117)
- 10% (30.09.17: 10%) decrease in EUR/GBP	132,789	(855,230)
Impact on Statement of Changes in Equity in response to a:		
- 10% (30.09.17: 10%) increase in EUR/GBP	(31,533)	(747,117)
- 10% (30.09.17: 10%) decrease in EUR/GBP	132,789	(855,230)
	30.09.18 £	30.09.17 £
Impact on Statement of Comprehensive Income and Equity in response to a:		
- 10% (30.09.17: 10%) increase in USD/GBP	(17,975)	(9,148)
- 10% (30.09.17: 10%) decrease in USD/GBP	(10,682)	(20,777)
Impact on Statement of Changes in Equity in response to a:		
- 10% (30.09.17: 10%) increase in USD/GBP	(17,975)	(9,148)
- 10% (30.09.17: 10%) decrease in USD/GBP	(10,682)	(20,777)
	30.09.18 £	30.09.17 £
Impact on Statement of Comprehensive Income and Equity in response to a:		
- 10% (30.09.17: 10%) increase in CHF/GBP	43	-
- 10% (30.09.17: 10%) decrease in CHF/GBP	7	-
Impact on Statement of Changes in Equity in response to a:		
- 10% (30.09.17: 10%) increase in CHF/GBP	43	-
- 10% (30.09.17: 10%) decrease in CHF/GBP	7	-

# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 16. Financial Risk Management continued

#### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has a credit policy in place and the exposure to credit risk is monitored on an on-going basis.

The main concentration of credit risk to which the Company is exposed arises from the Company's investments in Credit Securities. The Company is also exposed to counterparty credit risk on forwards, cash and cash equivalents, amounts due from brokers and other receivable balances.

The Company's policy is to manage this risk by maintaining a portfolio diversified by issuer. While the prospectus permits no more than 5% of the portfolio value to be invested in any single Credit Security or issuer of Credit Securities, the Portfolio Manager operates to stricter exposures dependent on the credit rating of each single Credit Security or issuer of Credit Securities.

Portfolio of debt securities by ratings category using the highest rating assigned by Standard and Poor's ("S&P"), Moody's Analytics ("Moody's") or Fitch Ratings ("Fitch"):

	30.09.18	30.09.17
BBB+	2.66%	0.00%
BBB-	6.76%	3.95%
BB+	9.09%	10.69%
BB	4.94%	9.11%
BB-	7.98%	7.18%
B+	6.45%	6.57%
B	30.80%	28.75%
B-	8.20%	10.23%
CCC+	0.22%	3.28%
CCC	0.49%	0.00%
CCC-	0.00%	0.03%
Not Rated*	22.41%	20.21%
	<u>100.00%</u>	<u>100.00%</u>

\*The non-rated exposure within the Company is managed in exactly the same way as the exposure to any other rated bond in the portfolio. A bond not rated by any of Moody's, S&P or Fitch does not necessarily translate as poor credit quality. Often smaller issues/tranches, or private deals which the Company holds, won't apply for a rating due to the cost of doing so from the relevant credit agencies. The portfolio managers have no significant credit concerns with the unrated, or rated, bonds currently held.

To further understand credit risk, the Portfolio Manager undertakes extensive due diligence procedures on investments in Credit Securities and monitors the on-going investment in these securities.

# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 16. Financial Risk Management continued

#### Credit risk continued

The Company manages its counterparty exposure in respect of cash and cash equivalents and forwards by investing with counterparties with a "single A" or higher credit rating. The majority of cash is currently placed with The Northern Trust Company. The Company is subject to credit risk to the extent that this institution may be unable to return this cash. The Northern Trust Company is a wholly owned subsidiary of The Northern Trust Corporation. The Northern Trust Corporation is publicly traded and a constituent of S&P 500. The Northern Trust Corporation has a credit rating of A+ from Standard & Poor's and A2 from Moody's.

The Company's maximum credit exposure is limited to the carrying amount of financial assets recognised as at the statement of financial position date, as summarised below:

	30.09.18	30.09.17
	£	£
Investments	162,829,994	148,499,775
Amounts due from broker	3,019,184	-
Cash and cash equivalents	6,834,535	8,169,355
Derivative assets: Forward currency contracts	10,686	77,788
Other receivables	2,984,168	2,762,950
	<u>175,678,567</u>	<u>159,509,868</u>

Investments in Credit Securities that are not backed by mortgages present certain risks that are not presented by mortgage-backed securities ("MBS"). Primarily, these securities may not have the benefit of the same security interest in the related collateral. Therefore, there is a possibility that recoveries on defaulted collateral may not, in some cases, be available to support payments on these securities. The risk of investing in these types of Credit Securities is ultimately dependent upon payment of the underlying debt by the debtor.

#### Liquidity risk

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

Investments made by the Company in Credit Securities may be relatively illiquid and this may limit the ability of the Company to realise its investments for the purposes of cash management such as generating cash for dividend payments to Shareholders or buying back Ordinary Shares under the Quarterly Tenders or in the market. Investments in Credit Securities may also have no active market and the Company also has no redemption rights in respect of these investments. The Company has the ability to borrow to ensure sufficient cash flows.

The Portfolio Manager considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables. Cash flows from trade and other receivables are all contractually due within twelve months.

The Portfolio Manager shall maintain a liquidity management policy to monitor the liquidity risk of the Company.



# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 16. Financial Risk Management continued

#### Liquidity risk continued

Shareholders have no right to have their shares redeemed or repurchased by the Company, except as detailed under the Capital Risk Management (Quarterly Tenders) section of this note. Shareholders wishing to release their investment in the Company are therefore required to dispose of their shares on the market.

The following table analyses the Company's liabilities into relevant maturity groupings based on the maturities at the statement of financial position date. The amounts in the table are the undiscounted net cash flows on the financial liabilities:

	Up to 1 month	1-6 months	6-12 months	Total
As at 30 September 2018	£	£	£	£
Amounts due to broker	(4,810,956)	-	-	(4,810,956)
Derivative liabilities: Forward				
currency contracts	-	(729,332)	-	(729,332)
Other payables	(343,689)	(51,500)	-	(395,189)
Total	<u>(5,154,645)</u>	<u>(780,832)</u>	<u>-</u>	<u>(5,935,477)</u>

	Up to 1 month	1-6 months	6-12 months	Total
As at 30 September 2017	£	£	£	£
Amounts due to broker	(3,676,479)	-	-	(3,676,479)
Derivative liabilities: Forward				
currency contracts	-	(182,733)	-	(182,733)
Other payables	(392,699)	(50,000)	-	(442,699)
Total	<u>(4,069,178)</u>	<u>(232,733)</u>	<u>-</u>	<u>(4,301,911)</u>

#### Capital risk management

The Company manages its capital to ensure that it is able to continue as a going concern while following the Company's stated investment policy. The capital structure of the Company consists of Shareholders' equity, which comprises share capital and other reserves. To maintain or adjust the capital structure, the Company may return capital to Shareholders or issue new Shares. There are no regulatory requirements to return capital to Shareholders.

# TwentyFour Select Monthly Income Fund Limited

---

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 16. Financial Risk Management continued

#### Capital risk management continued

##### *(i) Quarterly Tenders*

With the objective of minimising the risk of the Ordinary Shares trading at a discount to NAV and to assist in the narrowing of any discount at which the Ordinary Shares may trade from time to time, the Company has incorporated into its structure a mechanism (a “Quarterly Tender”), contingent on certain factors as described below, which can be exercised at the discretion of the Directors, to provide Shareholders with a quarterly opportunity to submit Ordinary Shares for placing or repurchase by the Company at a price representing a discount of no more than 2% to the then prevailing NAV.

Upon confirmation of the number of Tender Requests made in respect of each Quarter Record Date, the Company intends first, through its corporate broker acting on a reasonable endeavours basis, to seek to satisfy Tender Requests by placing the Tendered Shares with investors in the secondary market.

Second, subject to the Tender Restrictions, the Company intends to repurchase for cancellation any Tendered Shares not placed in the secondary market.

It is anticipated that the Company will tender on a quarterly basis for up to 20% of the Ordinary Shares in issue as at the relevant Quarter Record Date, subject to an aggregate limit of 50% of the Ordinary Shares in issue in any twelve month period ending on the relevant Quarter Record Date.

##### *(ii) Share buybacks*

The Company has been granted the authority to make market purchases of up to a maximum of 14.99% of the aggregate number of Ordinary Redeemable Shares in issue immediately following Admission at a price not exceeding the higher of (i) 5% above the average of the mid-market values of the Ordinary Redeemable Shares for the 5 business days before the purchase is made or, (ii) the higher of the price of the last independent trade and the highest current investment bid for the Ordinary Redeemable Shares.

In deciding whether to make any such purchases the Directors will have regard to what they believe to be in the best interests of Shareholders as a whole, to the applicable legal requirements and any other requirements in its Articles. The making and timing of any buybacks will be at the absolute discretion of the Board and not at the option of the Shareholders, and is expressly subject to the Company having sufficient surplus cash resources available (excluding borrowed moneys).

The Listing Rules prohibit the Company from conducting any share buybacks during close periods immediately preceding the publication of annual and interim results.

##### *(iii) Continuation votes*

In the event that:

(i) the Dividend Target, as disclosed in note 19, is not met; or

(ii) on any Tender Submission Deadline, applications for the Company to repurchase 50% or more of the Company’s issued Ordinary Shares, calculated as at the relevant Quarter Record Date, are received by the Company,

# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 16. Financial Risk Management continued

#### Capital risk management continued

A General Meeting will be convened at which the Directors will propose an Ordinary Resolution that the Company should continue as an investment company. If any such Ordinary Resolution is not passed, the Directors shall draw up proposals for the voluntary liquidation, unitisation, reorganisation or reconstruction of the Company for submission to the members of the Company at a General Meeting to be convened by the Directors for a date not more than 6 months after the date of the meeting at which such Ordinary Resolution was not passed.

### 17. Fair Value Measurement

All assets and liabilities are carried at fair value or at carrying value which equates to fair value.

IFRS 13 requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- (i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- (ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices including interest rates, yield curves, volatilities, prepayment speeds, credit risks and default rates) or other market corroborated inputs (level 2).
- (iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table analyses within the fair value hierarchy the Company's financial assets and liabilities (by class) measured at fair value as at 30 September 2018.

	Level 1	Level 2	Level 3	Total
	£	£	£	£
<b>Assets</b>				
Financial assets at fair value				
through profit or loss				
-Investments				
-Bonds	-	40,656,257	65,597,915	106,254,172
-Asset backed securities	-	46,866,424	9,709,398	56,575,822
-Derivative assets: Forward currency contracts	-	10,686	-	10,686
<b>Total assets as at 30 September 2018</b>	<b>-</b>	<b>87,533,367</b>	<b>75,307,313</b>	<b>162,840,680</b>
<b>Liabilities</b>				
Financial liabilities at fair value				
through profit or loss				
-Derivative liabilities: Forward currency contracts	-	729,332	-	729,332
<b>Total liabilities as at 30 September 2018</b>	<b>-</b>	<b>729,332</b>	<b>-</b>	<b>729,332</b>

# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 17. Fair Value Measurement continued

The following table analyses within the fair value hierarchy the Company's financial assets and liabilities (by class) measured at fair value as 30 September 2017.

	Level 1	Level 2	Level 3	Total
	£	£	£	£
<b>Assets</b>				
Financial assets at fair value				
through profit or loss				
-Bonds	-	27,770,154	73,901,893	101,672,047
-Asset backed securities	-	38,465,977	8,361,751	46,827,728
-Derivative assets: Forward currency				
contracts	-	77,788	-	77,788
<b>Total assets as at 30 September 2017</b>	<b>-</b>	<b>66,313,919</b>	<b>82,263,644</b>	<b>148,577,563</b>
<b>Liabilities</b>				
Financial liabilities at fair value				
through profit or loss				
-Derivative liabilities: Forward currency				
contracts	-	182,733	-	182,733
<b>Total liabilities as at 30 September 2017</b>	<b>-</b>	<b>182,733</b>	<b>-</b>	<b>182,733</b>

Credit Securities which have a value based on quoted market prices in active markets are classified in level 1. At the end of the year, no Credit Securities held by the Company are classified as level 1.

Credit Securities which are not traded or dealt on organised markets or exchanges are classified in level 2 or level 3. Credit securities priced at cost are classified as level 3. Credit securities with prices obtained from independent price vendors, where the Portfolio Manager is able to assess whether the observable inputs used for their modelling of prices are accurate and the Portfolio Manager has the ability to challenge these vendors with further observable inputs, are classified as level 2. Prices obtained from vendors who are not easily challengeable or transparent in showing their assumptions for the method of pricing these assets, are classified as level 3. Credit Securities priced at an average of two vendors' prices are classified as level 3.

Where the Portfolio Manager determines that the price obtained from an independent price vendor is not an accurate representation of the fair value of the Credit Security, the Portfolio Manager may source prices from third party dealer quotes and if the price represents a reliable and an observable price, the Credit Security is classified in level 2. Any dealer quote that is over 20 days old is considered stale and is classified as level 3.

# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 17. Fair Value Measurement continued

There were no transfers between level 1 and 2 during the year, however transfers from level 3 to level 2 occurred based on the Portfolio Manager's ability to obtain a reliable and observable price as detailed above.

Due to the inputs into the valuation of Credit Securities classified as level 3 not being available or visible to the Company, no meaningful sensitivity on inputs can be performed.

The following table presents the movement in level 3 instruments for the year ended 30 September 2018 by class of financial instrument.

	Bonds	Asset backed securities	Total
	£	£	£
Opening balance	73,901,893	8,361,751	82,263,644
Net purchases	1,842	5,849,062	5,850,904
Net realised (loss)/gain for the year	(1,086,461)	652,813	(433,648)
Net unrealised loss for the year	(1,074,122)	(254,682)	(1,328,804)
Transfer into Level 3	8,972,727	-	8,972,727
Transfer out of Level 3	(15,117,964)	(4,899,546)	(20,017,510)
Closing balance	65,597,915	9,709,398	75,307,313

The following table presents the movement in level 3 instruments for the year ended 30 September 2017 by class of financial instrument.

	Bonds	Asset backed securities	Total
	£	£	£
Opening balance	44,956,109	10,789,771	55,745,880
Net purchases	24,355,563	1,607,339	25,962,902
Net loss for the year	(3,997,181)	(412,036)	(4,409,217)
Net unrealised gain for the year	6,126,981	441,842	6,568,823
Transfer into Level 3	9,127,401	-	9,127,401
Transfer out of Level 3	(6,666,980)	(4,065,165)	(10,732,145)
Closing balance	73,901,893	8,361,751	82,263,644

# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 17. Fair Value Measurement continued

The following table analyses within the fair value hierarchy the Company's assets and liabilities not measured at fair value at 30 September 2018 but for which fair value is disclosed.

	Level 1	Level 2	Level 3	Total
30 September 2018	£	£	£	£
<b>Assets</b>				
Amounts due from broker	-	3,019,184	-	3,019,184
Other receivables	-	2,984,168	-	2,984,168
Cash and cash equivalents	6,834,535	-	-	6,834,535
<b>Total</b>	<b>6,834,535</b>	<b>6,003,352</b>	<b>-</b>	<b>12,837,887</b>
<b>Liabilities</b>				
Amounts due to broker	-	4,810,956	-	4,810,956
Other payables	-	395,189	-	395,189
<b>Total</b>	<b>-</b>	<b>5,206,145</b>	<b>-</b>	<b>5,206,145</b>

The following table analyses within the fair value hierarchy the Company's assets and liabilities not measured at fair value at 30 September 2017 but for which fair value is disclosed.

	Level 1	Level 2	Level 3	Total
30 September 2017	£	£	£	£
<b>Assets</b>				
Other receivables	-	2,762,950	-	2,762,950
Cash and cash equivalents	8,169,355	-	-	8,169,355
<b>Total</b>	<b>8,169,355</b>	<b>2,762,950</b>	<b>-</b>	<b>10,932,305</b>
<b>Liabilities</b>				
Amounts due to broker	-	3,676,479	-	3,676,479
Other payables	-	442,699	-	442,699
<b>Total</b>	<b>-</b>	<b>4,119,178</b>	<b>-</b>	<b>4,119,178</b>

The assets and liabilities included in the above tables are carried at amortised cost; their carrying values are a reasonable approximation of fair value.

# TwentyFour Select Monthly Income Fund Limited

---

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 17. Fair Value Measurement continued

Cash and cash equivalents include deposits held with banks.

Amounts due to brokers and other payables represent the contractual amounts and obligations due by the Company for settlement of trades and expenses. Amounts due from brokers and other receivables represent the contractual amounts and rights due to the Company for settlement of trades and income.

### 18. Segmental Reporting

The Board is responsible for reviewing the Company's entire portfolio and considers the business to have a single operating segment. The Board's asset allocation decisions are based on a single, integrated investment strategy, and the Company's performance is evaluated on an overall basis.

The Company invests in a diversified portfolio of Credit Securities. The fair value of the major financial instruments held by the Company and the equivalent percentages of the total value of the Company are reported in the Top Twenty Holdings.

The internal reporting provided to the Board for the Company's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of IFRS.

There were no changes to reportable segments during the year.

Revenue earned is reported separately on the face of the Statement of Comprehensive Income as investment income being interest income received from Credit Securities.

### 19. Dividend Policy

The Board intends to distribute an amount at least equal to the value of the Company's net income arising each financial year to the holders of Ordinary Shares. However, there is no guarantee that the dividend target of 6.0 pence per Ordinary Share for each financial year will be met or that the Company will make any distributions at all.

Distributions made with respect to any income period comprise (a) the accrued income of the portfolio for the period (for these purposes, the Company's income will include the interest payable by the Credit Securities in the portfolio and amortisation of any discount or premium to par at which a Credit Security is purchased over its remaining expected life), and (b) an additional amount to reflect any income purchased in the course of any share subscriptions that took place during the period. Including purchased income in this way ensures that the income yield of the shares is not diluted as a consequence of the issue of new shares during an income period and (c) any gain / (loss) on the foreign exchange contracts caused by the libor differentials between each foreign exchange currency pair.

The Board expects that dividends will constitute the principal element of the return to the holders of Ordinary Shares.

# TwentyFour Select Monthly Income Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 19. Dividend Policy continued

The Company declared the following dividends in respect of the distributable profit for the year ended 30 September 2018:

Period to	Dividend rate per Share (pence)	Net dividend paid Income (£)	Ex-dividend date	Record date	Pay date
31 October 2017	0.50	804,646	16 November 2017	17 November 2017	30 November 2017
30 November 2017	0.50	804,646	14 December 2017	15 December 2017	29 December 2017
31 December 2017	0.50	804,646	18 January 2018	19 January 2018	31 January 2018
31 January 2018	0.50	804,646	15 February 2018	16 February 2018	28 February 2018
28 February 2018	0.50	804,646	15 March 2018	16 March 2018	29 March 2018
31 March 2018	0.50	834,646	19 April 2018	20 April 2018	30 April 2018
30 April 2018	0.50	849,646	17 May 2018	18 May 2018	31 May 2018
31 May 2018	0.50	882,146	21 June 2018	22 June 2018	30 June 2018
30 June 2018	0.50	882,146	19 July 2018	20 July 2018	31 July 2018
31 July 2018	0.50	897,146	16 August 2018	17 August 2018	31 August 2018
31 August 2018	0.50	910,896	20 September 2018	21 September 2018	28 September 2018
30 September 2018	1.05	1,912,195	18 October 2018	19 October 2018	31 October 2018

Under the Companies (Guernsey) Law, 2008, the Company can distribute dividends from capital and revenue reserves, subject to the net asset and solvency test. The net asset and solvency test considers whether a company is able to pay its debts when they fall due, and whether the value of a company's assets is greater than its liabilities. The Board confirms that the Company passed the net asset and solvency test for each dividend paid.

### 20. Ultimate Controlling Party

In the opinion of the Directors on the basis of shareholdings advised to them, the Company has no ultimate controlling party.



# TwentyFour Select Monthly Income Fund Limited

---

## NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

### 21. Subsequent Events

These Financial Statements were approved for issuance by the Board on 14 January 2019. Subsequent events have been evaluated until this date.

Subsequent to the year end and up to the date of the Annual Report and Audited Financial Statements, the following events took place:

#### *Dividend declarations*

	Dividend rate per Share (pence)
Declaration date	
11 October 2018	1.05
8 November 2018	0.50
6 December 2018	0.50
8 January 2019	0.50

PO Box 255  
Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey  
GY1 3QL

