

SEPARATOR SHEET

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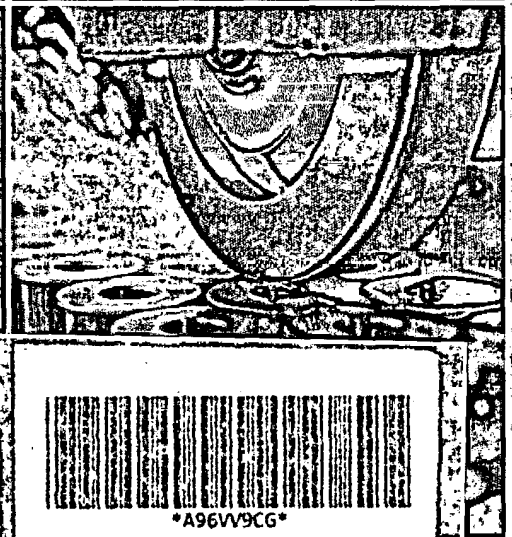
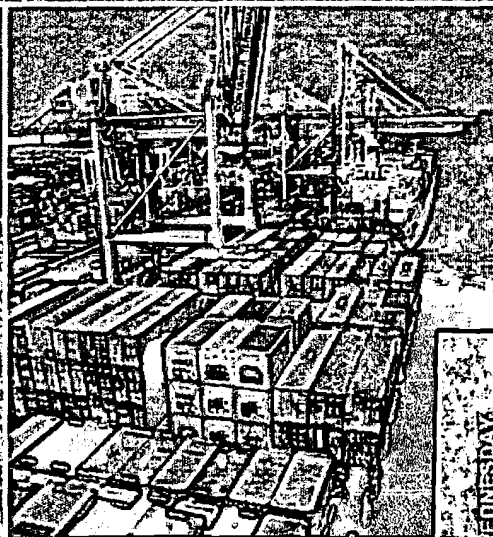
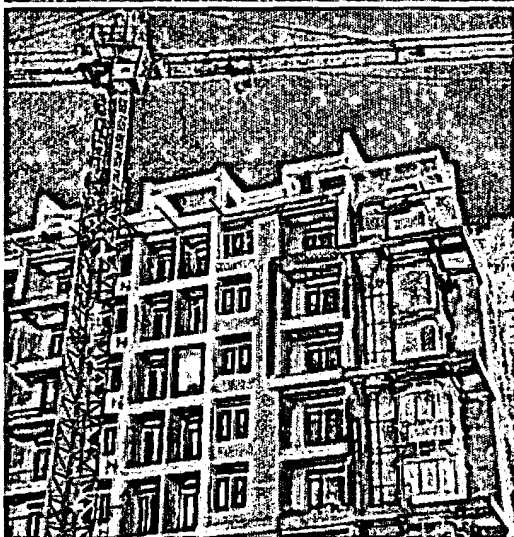
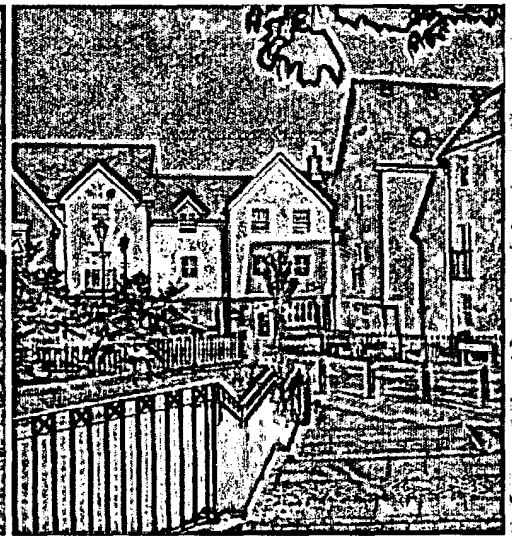
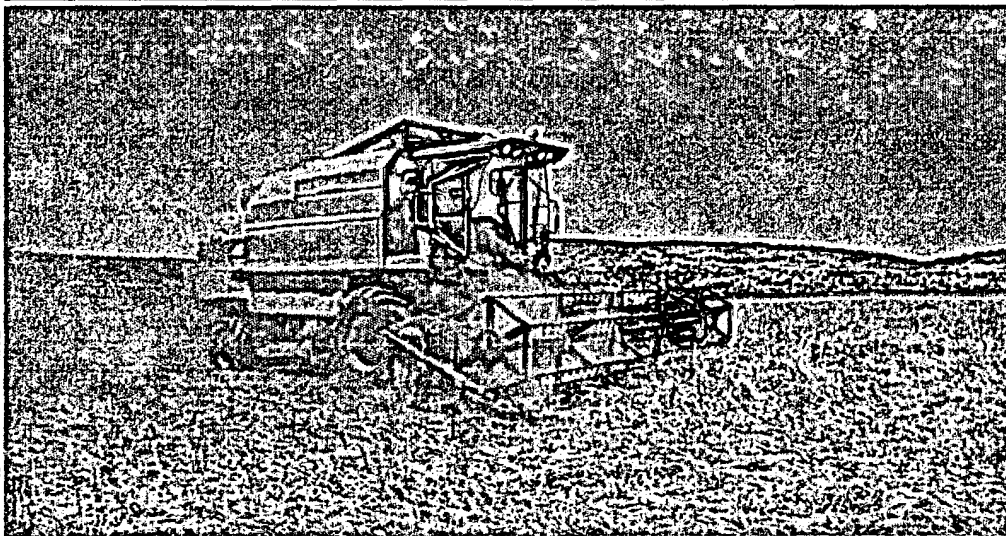
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COMPANIES HOUSE

Secured investments that power businesses

RM Secured Direct Lending PLC

Annual Report and Accounts for the year ended 31 December 2019



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Investment Objective, Financial Information and Performance Summary

Investment Objective

RM Secured Direct Lending Plc ("the Company") aims to generate attractive and regular dividends through investment in secured debt instruments of UK Small and Medium sized Enterprises ("SMEs") and mid-market corporates and/or individuals including any loan, promissory notes, lease, bond, or preference share (such debt instruments, as further described on page 9, being "Loans") sourced or originated by RM Capital Markets Limited (the "Investment Manager") with a degree of inflation protection through index-linked returns where appropriate.

Financial Information

	Group Year ended 31 December 2019	Group Year ended 31 December 2018
Gross asset value (£'000) ¹	£131,069	£106,875
Net asset value ("NAV") (£'000)	£119,528	£95,720
NAV per Ordinary Share (pence)	97.79p	96.96p
Ordinary Share price (pence)	99.50p	101.50p
Ordinary Share price premium to NAV ¹	1.7%	4.7%
Ongoing charges ¹	1.77%	1.93%
Accrued entitlement of Zero Dividend Preference ("ZDP") Share (pence) ²	106.18	102.62

Performance Summary

	% change ^{3,5}	% change ^{4,5}
Total return – Ordinary Share NAV and dividends ¹	+8.2%	+5.5%
Total return – Ordinary Share price and dividends ¹	+4.9%	+6.9%

¹ These are Alternative Performance Measures ("APMs").

² Based on the net assets attributable to the ZDP Shares as at 31 December 2018 and 2019.

³ Total returns for the year to 31 December 2019, including dividend reinvestment.

⁴ Total returns for the year to 31 December 2018, including dividend reinvestment.

⁵ Source: Bloomberg.

Alternative Performance Measures ("APMs")

The financial information and performance summary data highlighted in the footnote to the above tables are considered to represent APMs of the Group and the Company. Definitions of these APMs together with how these measures have been calculated can be found on pages 76.

Chairman's Statement

Introduction

On behalf of the Board, I am pleased to present RM Secured Direct Lending plc's ("RMDL" or "the Company") third annual report and financial statements for the year ended 31 December 2019.

Consistent growth and performance

Since the Company listed in December 2016, RMDL has continued to grow its portfolio, increase the spread of its investments, and deliver against the objectives set out at IPO, generating excellent risk adjusted returns for investors.

It is pleasing that the Company has continued to grow its capital base, utilising its placing programme twice during the year, to issue 13.5 million new Ordinary Shares in March 2019 and 10 million new Ordinary Shares during November 2019, to both new and existing investors. The proceeds were deployed into the Investment Manager's attractive pipeline of opportunities.

These successful placings help achieve the twin aims of seeking to reduce the ongoing charges ratio and diversifying the Company's portfolio. Including the Zero Dividend Preference shares, the revolving credit facility and the net assets of the Company, RMDL has invested and investible assets of £140 million. The total number of shares in issue has increased to 122.2 million.

As at 31 December 2019, the Company had a NAV return of 8.2% (dividends re-invested at NAV) and since inception the NAV total return for investors has been 17.6%.

Returns to Shareholders and portfolio outperformance

Our distribution targets have been met and during the year there was continued outperformance of the Company versus its stated objectives.

The year saw the continuation of relatively benign conditions across the credit markets. Quantitative easing has been responsible for such benign credit conditions which imply weaker actual fundamentals if this central bank support were to be withdrawn.

The successful execution of the business strategy is evidenced by the number of Loans repaid in the year and the deployment of fresh capital to new Loans – whilst the total number of investments has remained largely static (34 as at 31 December 2019 versus 35 as at 31 December 2018) the portfolio dynamics are active. The portfolio has grown from £103 million to £131 million with 13 new investments during the year totalling £53 million, drawdowns to previously documented facilities of £29 million and repayments and divestments totalling £53 million. These portfolio turnover statistics are useful in so far as it shows the dynamism within the portfolio and demonstrates that invested capital is repaid.

Highly resilient, well diversified portfolio

The Investment Manager has remained focused on creating a diverse portfolio but has moved strategically towards less cyclical sectors such as social infrastructure and real estate lending, including areas such as student accommodation, childcare and health care businesses, and mid-market branded hotels. Overall this has resulted in a stable, well secured, income generative portfolio where the Investment Manager can obtain additional risk adjusted returns due to their ability to source private credit transactions which are not available in the public markets.

Income generation and NAV Performance

The Company has paid or declared regular dividends during the year totalling 6.5 pence per Ordinary Share, as well as special dividends totalling 0.45 pence per Ordinary Share. The ability of the Company to pay dividends in excess of its target during a year when our peer group has struggled is testament to the ability of the Investment Manager to structure Loans for the benefit of Shareholders, whilst maintaining strict credit controls.

On the 25 February 2020 the Company declared a fourth interim dividend in respect of the period from 1 October 2019 to 31 December 2019 of 1.625 pence per Ordinary Share and an additional special dividend of 0.075 pence per Ordinary Share to be paid on the 27 March 2020.

The dividends paid in 2019 were covered by the net income generated in the portfolio. The retained revenue gives the Company flexibility to absorb credit losses whilst maintaining, and perhaps even growing, the NAV or to smooth dividend income in more difficult years.

The 8.2% NAV return (dividends re-invested at NAV) for 2019 in excess of the percentage distributed to Shareholders net of credit movements has seen the NAV grow over the year from 96.98 pence to 97.79 pence. It is the Board and the Investment Manager's goal to continue to grow this figure by having a well-covered dividend and by minimising credit losses.

Carefully managed credit risk and valuations

Credit risk is the most important risk factor within the portfolio. This is managed carefully by the Investment Manager, the AIFM (International Fund Management Limited) and overseen by the Board. Exposure is mitigated by having clear borrower/issuer risk limits and industry risk limits which are detailed in the Company's prospectus. These limits reflect a maximum borrower/issuer limit of 10% of the portfolio and are across a range of sectors to ensure sufficient sector diversity.

The Company's Loans are measured at fair value and this valuation is carried out by a third-party valuation agent, Mazars LLP. This independent valuation is conducted monthly and constitutes part of the NAV announcement released on or around the 16th of each month. The Board and the Investment Manager believe that this methodology accurately reflects the portfolio valuations and leads to an independent NAV valuation which investors and the Board can rely upon. The Investment Manager's report breaks out the portfolio of investments and details the marks which allows investors to better understand how this works in practice.

The Board and the Investment Manager recognise the problems in the wider sector and in our view the current wide discounts are reflective of the market not having confidence in the published NAV figures combined with reactive and often limited portfolio disclosures. We are committed to adhere to the highest standards of corporate governance and trust that the market will appreciate these efforts.

Shareholder communications

The Board and the Investment Manager believe that RMDL is leading the way when it comes to investor disclosures and since inception RM Funds has provided detailed monthly factsheets. These factsheets are released on or around the 16th of each month alongside the NAV and describe specific investments, net interest income and mark to mark movements.

Revolving Credit Facility

During the year, the Company extended the Revolving Credit Facility ("RCF") with OakNorth Bank, with an expiry date of 5 November 2020. As at the end of the year there was no drawn down of the RCF (2018: £ Nil). Under the terms of the amended RCF, the Company may draw down loans up to an aggregate value of £10.5 million. Aside from setup costs, there is no additional cost to maintaining the facility, unless utilised.

Committed to responsible investing

The Board and the Investment Manager believe that responsible investment involves the integration of Environmental, Social and Governance ("ESG") factors within the investment process. Since inception the Company has had strict restrictions, laid out in its prospectus including the explicit exclusion of any investments to borrowers whose principle business is defence, weapons, munitions, pornography, tobacco, alcohol or gambling. In addition, the Investment Manager is a signatory to the Principles for Responsible Investment ("PRI"), supported by the United Nations, a framework of six principles, which RM Funds has incorporated into its business:

1. Incorporate ESG issues into investment analysis and decision-making processes;
2. Be active owners and incorporate ESG issues into our ownership policies and practices;
3. Seek appropriate disclosure on ESG issues by the entities in which we invest;
4. Promote acceptance and implementation of the Principles within the investment industry;
5. Work together to enhance our effectiveness in implementing the Principles;
6. Report on our activities and progress towards implementing the Principles.

Such ESG factors which are traditionally not part of financial analysis are currently incorporated and prioritised as part of the investment process and the Board will seek to review this quarterly going forward.

It is notable that the Investment Manager and the Board are focused on investments within Social Infrastructure. Such investments meet our core investment criteria and have a positive social output. This Company is aiming to increase the provision of funding for children's nurseries, student accommodation and aged care during 2020.

Annual General Meeting ("AGM")

The Company intends to hold its AGM at 11.00 am on 27 May 2020 at the offices of RM Capital Markets Limited, 7 Melville Crescent, Edinburgh, EH3 7JA.

The well-being and safety of Shareholders and service providers is a primary concern for the directors of the Company. Due to the restrictions on gatherings and travel, save for very limited purposes, under the regulations and guidance issued by the UK Government

Chairman's Statement

continued

relating to the Coronavirus (COVID-19) the Directors have (pursuant to powers granted to them by the Company's Articles of Association) determined that Shareholders should not attend the AGM in person. Arrangements have been made to ensure that the AGM is quorate and at the AGM only the formal business of the AGM will be considered.

As Shareholders are not able to attend the AGM in person they are strongly encouraged to vote online or submit their proxy forms remotely to ensure their vote counts at the AGM. Votes can be lodged in advance of the AGM through any of the following means:

- online at www.signalshares.com – You will need to log in to your share portal account. If you don't have an account you can register on the share portal using your investor code (shown on your share certificate) and you will be able to vote straightaway;
- postal voting; or
- via the CREST System if shares are held in CREST.

The Company will continue to update Shareholders on material developments in the usual way, via the Regulatory News Service. Any investor relations enquiries or questions related to the Company or the AGM can be emailed to info@rm-capital.co.uk. The Board and the Investment Manager will respond to emailed questions via the monthly newsletter where appropriate.

Price performance and discount to NAV

In common with almost all closed-end funds, and especially with our peer group, the share price of RMDL has declined significantly since the end of February 2020 due to the impact on financial markets and investors of COVID-19. In common with other market corrections (the 2007-8 Global Financial Crisis, the September 2001 attacks leading to the 2002 stock market correction, the 2000 bursting of the dot com bubble, the 1998 Russia crisis, the 1997 Asia crisis, the 1990 Japan correction, the 1987 stock market correction etc) much of the fall in share prices seems to be down to investors being forced to sell positions due to deleveraging, and not, as yet, due to a fundamental economic change. RMDL is no exception with much of the fall, I believe, due to a few forced sellers. The Board is monitoring the situation closely and will respond appropriately. I would like to remind shareholders that in the Prospectus issued in November 2016, the Board ensured that a clause protecting shareholders from a prolonged discount was included. Although it is human nature to focus on the negatives, it is important to remember that the UK government has announced cuts in interest rates, an emergency rescue package of £350bn and numerous other measures designed to protect and stimulate the economy (as have other governments around the world), the impact of which has yet to be felt.

Coronavirus

The impact of the Coronavirus has been felt around the world but the economic and financial implications in the medium to long term are unclear. The Board and the Investment Manager continue to monitor and evaluate the situation. We will endeavour to keep Shareholders informed but we expect the situation to be highly volatile over the coming months.

Outlook

I have noted in previous years that credit conditions are likely to worsen – it is our view that this post global financial crisis credit cycle has been long and elongated by actions taken by policy makers and central bankers. The Investment Manager's strategy to focus on defensive sectors which are uncorrelated to wider equity markets is relevant to investors at this stage of the cycle for two specific reasons.

Firstly, the ability to manage duration risk within the portfolio investments; Central Bank actions have lowered "risk free" government rates to such a level that traditional corporate bond funds have significant risk to any future increases to interest rate expectations. RMDL has actively mitigated this risk by investing in Loans reference to Libor referenced loans or fixed coupon Loans.

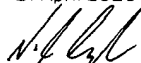
The second reason is the active management and approach to the taking of credit risk; as credit spreads and government yields have compressed, covenants and lender protections have become weaker at a time when yields have fallen. RMDL seeks to mitigate this risk by finding those opportunities in private credit, offering investor protections that are not widely available in public markets and which offer above average returns.

While the recent performance by the wider Debt Investment Companies peer group may have dented investor sentiment, we remain confident in our Investment Manager's ability to deliver against our strategy. It is our view that the Company offers investors access to stable, long term, above average returns which has been demonstrated by the first three years of trading. Investors will take comfort in the demonstrable track record of accurate portfolio valuations, clear investor disclosure and an approach to lending that has high quality underwriting standards combined with professional due diligence, monitoring and control.

The Board is delighted to have such a broad investor base and is grateful for the support of Shareholders. We would also like to thank RM Funds and the other professional advisors for their hard work and support throughout the year.

Norman Crighton
Chairman

21 April 2020



Investment Manager's Report

Strong and sustainable performance

Over the course of the year, the portfolio generated a NAV Total Return of 8.2%, with total dividend distributions attributable for the year totalling 6.5 pence per Ordinary Share as well as special dividends totalling 0.45 pence per Ordinary Share. Following the year end an Interim Dividend relating to the final quarter of the year was declared on 25 February 2020 and paid to Shareholders on 27 March 2020. These dividends of 1.625 pence per Ordinary Share and an additional special dividend of 0.075 pence per Ordinary Share bring the total attributable to income generated in 2019 to in excess of the 6.50 pence per share distribution target which reflects portfolio outperformance. The additional dividend income was classified as a special dividend and paid over 3 quarters. Furthermore, the Investment Manager and the Board have taken a conservative approach by retaining a percentage of income net of credit losses which has allowed additional NAV growth over the year. The published NAV figures show growth from 96.98 pence per share at the beginning of the year to 97.79 pence per share at the end of 2019.

The share price performance of the Company over the year has been largely stable, trading in a narrow range within 99.50 pence and 103 pence per share during the year.

Ongoing commitment to transparency and regular investor communications

Whilst 2019 was a year of outperformance for RMDL Shareholders with income distributions above target and overall NAV growth for the Company, it is clear that there are a number of issues within our peer group. This has led some companies to trade at significant discounts to NAV.

Since the IPO, the Board and the Investment Manager at RMDL have been very clear that investor disclosures should be substantial and robust and that the portfolio valuations, which make up the NAV, are independently produced by an external valuation agent and reflect perceived or actual risks. It is our objective as the Investment Manager to ensure that all investor communications are clear enabling all Shareholders to understand the full Company portfolio clearly. Such investor communications are monthly on or around the 16th of each month when the factsheet is released.

Alignment to investor interests

In line with the prospectus, the Investment Manager has continued to purchase shares of the Company during the year. The Investment Manager now owns directly over 1,199,825 shares; the management team and related parties' also own additional shares. Since IPO the Investment Manager has purchased 699,825 shares directly in the secondary market. By purchasing RMDL shares, the Investment Manager has shown a significant alignment of its interests with Shareholders and it is our intention to continue to invest part of the management fee during 2020.

The Market Environment

The macro-economic picture was mixed during 2019, however there was ultimately a firm tone over the year for risk assets which masks mini bouts of volatility seen over the period. Concerns over the US/China trade war abated and no solution to Brexit for the majority of the year hampered UK business investment and confidence. The election win for the Conservatives in December provided clarity and a firm tone to end the year for the UK market.

Within Europe, quantitative easing restarted which provided stimulus to underperforming economies and supported Eurozone equity and bond markets.

Our view at RM is that the market is susceptible to weakness, as the rally seen during 2019 was not underpinned by positive economic news but relief that the trade war has not escalated, that Brexit will be done (in whatever form that may take) and signs that any further weakness in Europe will see continued Central Bank support to the markets.

As a result, we believe that Social Infrastructure and Real Estate backed lending offers the best place for capital at this point of the cycle. For the year we successfully deployed capital to mid-market branded hotels and student accommodation investments. Looking forward to 2020, our focus is on healthcare, childcare and additional investments within the student accommodation space. These sectors offer tangible asset backed lending and stable cash flows which are not directly correlated to the wider business cycle.

Key Risks

As we look forward and try to understand the key risks, we identify the following:

Market: at RM Funds we break this down into three areas as we look forward to 2020:

- **Weaker growth** – the global synchronizations of trade means that the current US/China trade wars could have unintended consequences for global growth and economic activity which ultimately could lead to economic contraction. The impact of the coronavirus also will have an, as yet, unquantifiable impact on global growth.

Investment Manager's Report

continued

- Whilst absolute default rates are low any slow-down in economic activity will put pressure on corporates who have already seen the ratio of rating's downgrades to upgrades increase. We see such credit risks as being higher than in previous cycles as a larger part of the market is now being taken up by single B or C rated issuers as investors have moved down the rating scale in an effort to find yield. Such issuers are less able to withstand losses and typically losses in default would be higher than previous cycles.
- Finally, the marginal impact from monetary policy makers especially within the Eurozone is getting less and less. Fiscal stimulus would be required to boost growth at a time when government debt levels are elevated. This in turn could lead to a negative feedback loop if European government debt values fall as banks have been encouraged to buy such assets by central banks and hold them on their balance sheets. This scenario perhaps poses the most risk as it becomes systemic.

Credit – The idiosyncratic credit risk is the risk attached to a specific investment rather than the broader market sentiment detailed above. In effect this is the risk that the borrower is unable to repay or service the loan. Within the portfolio this is the largest risk and is mitigated by the following actions by the Investment manager:

- Strict underwriting standards which relate to industry selections and risk concentrations, leverage and lender security.
- Careful due diligence and extensive initial credit work.
- Effective ongoing monitoring and the ability to recover capital in a downside scenario.

Currency – the risks here are that USD and EUR currencies depreciate and RMDL investments in local currency lose value versus our base currency in GBP. The Company has mitigated this risk by using currency forwards to hedge the majority of any currency exposures within the portfolio. At the end of the year the only non-GBP assets held were in EUR.

Interest Rates – should rates rise the present value of the current loans could decline as higher discount rates are used. This has been mitigated by investing predominantly in Loans that have coupons which are linked to Libor. Portfolio fixed rate investments usually have relatively short maturities to mitigate this risk.

Responsible Investing

RM Funds is a signatory to the Principals for Responsible Investment ("PRI"). The PRI defines responsible investment as a strategy and practice to incorporate environmental, social and governance factors (ESG) in investment decisions. RM Funds incorporates ESG criteria early on as part of the investment process and in addition there is active engagement wherever possible with portfolio Companies to help them improve their ESG processes. In practice this is delivered by the RM Funds Responsible Investing Investment Policy which is integral to RM's business philosophy as we believe we can make a difference. This policy framework applies to all investment made by RM Funds and is governed by our principals and our commitments:

Our principals; Respect for the internationally proclaimed human rights principles, equal opportunity independent of gender, race or religion; freedom of association and the right to bargain collectively; working conditions that surpass basic health and safety standards; the conduct of good governance practices, in particular in relation to bribery and conflicts of interest; environmental responsibility and responsibility to active climate change engagement.

Our commitments; Integrate the above principles into our decision-making process, by carefully considering ESG issues associated with any potential investment during the due diligence phase; encourage portfolio companies to follow the above principles by implementing governance structures that provide appropriate level of oversight and by seeking disclosure on ESG issues; provide ESG training and support to RM employees involved in the investment process, so that they may perform their work in accordance with the above principles and with this policy; seek to be transparent in its efforts to integrate ESG considerations in investments and annually report on its progress towards implementing the above principles, comply with national and other applicable laws; help promote the implementation of the above principles; consider our alignment with other related conventions and standards set by Invest Europe, the UN Global Compact Initiative and the UN Principles for Responsible Investment (PRI); continuously strive to improve ESG performance within our portfolio companies.

Investing in attractive asset backed lending opportunities

The Company is focused on middle market corporate and real asset lending. The focus is on private Loans which are secured over company assets or property as in our view real asset lending provides downside protection for investor's capital. The Investment Manager looks for strong management teams, contracted cash flows and real assets.

The Investment Manager specialises in corporate, asset finance and project finance lending and has built up a portfolio of 34 investments. The Investment Manager believes that such transactions offer a spread pick up versus such credit opportunities in the public markets and additional protections for investor's capital in the form of typically enhanced covenants and borrower security. Many traditional corporate bonds which offer any yield are unsecured or deeply structurally subordinated and offer fewer investors

protections to mitigate any downside scenarios. In addition, the RMDL portfolio has been created to reduce duration risk by having a significant exposure to floating rate coupons.

The portfolio is well diversified across sectors and borrowers, with a broad mix of funding across the capital structure. The Investment Manager target transactions with appropriate borrower equity, appropriate risk adjusted spreads and security which is recoverable so that in a downside scenario there is capital protection.

Geographically all of the investments are currently within the UK or Europe although the mandate is to invest within developed global markets. The Investment Manager aim to mitigate any currency exposure by hedging any non-UK investments back to GBP.

The Company breaks down the type of Loan into three areas; bilateral loans, syndicated loans and public bonds. As at 31 December 2019 the split was Bilateral 58%, Syndicated 37%, Bond 5%. The advantages for each type are as follows:

- Bilateral loans – RMDL as the sole lender, given the bespoke nature of the financing, the Company receives enhanced yield to compensate for the illiquidity and enhanced investor protections via the transaction covenants. Valued by the Valuation agent.
- Syndicated facilities – as a member of a lending syndicate typically the Investment Manager is working with borrowers who have larger financing needs that need to be supplied by more than one debt funder. Sponsor backed transactions with significant equity sitting below lenders, enhanced yield due to less liquidity than public bonds usually with enhanced security and covenants. Typically valued by external pricing source.
- Public Bonds – some issuers prefer to issue a bond as a private placement rather than a syndicated loan and in addition some large corporate issues meet the RMDL investment criteria and offer appropriate risk adjusted returns. Smaller more liquid part of the portfolio. Valued by external pricing source.

Having various degrees of liquidity within the portfolio is useful especially when it comes to managing cash resources. Typically, bilateral loans can take a number of months to structure so having the ability to raise cash at the point of funding is critical without suffering cash drag should the transaction not proceed, or conversely managing cash balances if there is an unexpected repayment.

Increasing portfolio diversification and dividend cover

Over the period investment activity has meaningfully increased both the diversity and scale of the portfolio with 13 new investments totalling £53 million and drawdowns to previously documented facilities of £29 million. Against this there have been repayments and divestments totalling £53 million which means overall the Loan book has grown from circa £103 million of invested capital at year end 2018 to £131 million at 31 December 2019.

Dividend cover has increased from 0.96x to 1.30x. This is important as this gives the Company capacity to absorb any credit losses whilst maintaining the dividend target and growing NAV.

Average price Bilateral (p)	Average price Syndicated (p)	Average price Bond (p)
98.4	96.9	97.0
Average Portfolio Running Yield	Average Portfolio YTM	Average portfolio LTV
8.57%	9.68%	67.6%

The largest and most significant repayments were from two borrowers:

- The first was ICP Nurseries who in April 2019 repaid a loan with prepayment penalties attached to it, along with the sale of some equity warrants which the Company took for facilitating the growth financing to ICP.
- The second repayment was from Satcom Global who repaid a USD Loan facility in December. This facility had a minimum term to it which meant again additional interest was due and paid.

Investment Manager's Report

continued

Both showcase the types of borrowers we target and demonstrate how such flexible financing offered by the Company when appropriately structured can yield above average returns.

The Company's Loans are measured at Fair Value and this valuation is carried out monthly by a third-party Valuation agent, Mazars LLP. For loans of sufficient liquidity, third party pricing is delivered by Markit Group to Mazars LLP, and these valuations are quoted in bid prices. Pricing sources are detailed on the portfolio breakdown detailing the breakdown between Markit Group reference prices and Mazars LLP as the Valuation Agent.

The key points are; the book has valuations which are £2.9 million less than the par value. These marks reflect the perceived or actual risk within the investments at year end and are the equivalent of circa 2.3% of NAV. Where there are actual risks the workout and recovery processes are actioned to maximise value and the return of capital. Where it is perceived risk we expect full repayment as Loans are refinanced or repaid.

Across the portfolio there is a running yield of 8.57%. The running yield is the annual income on an investment divided by its current market value.

Portfolio update and outlook for 2020

Over recent days and weeks there have been significant changes to equity and credit market valuations caused by the global effects of the spread of the Coronavirus. This sell off has increased in pace over this recent period and become a major market shock which might equal or exceed the previous and infamous periods such as the dot com, global financial crisis and the eurozone crisis. The speed of the sell-off has been astonishing with equity markets experiencing recent highs in mid-February and then by mid-March multi year lows. The unusual nature of this potential market shock affects both demand and supply and both equity and credit markets have moved in tandem. For a number of years, the Investment Management team has been extolling the virtue of secured private credit and have made favourable valuation comparisons to unsecured high yield bonds. We are therefore not surprised to see wider credit spreads; however, we are astounded to see where these spreads have moved to and also where secured Loans have been trading.

It is the stated aim of the Company to mark the portfolio to market – such marks give investors real-time accurate information as to the Net Asset Value of the portfolio. This allows them to make informed decisions with regards to the share price and the value of the Company on a monthly basis on or around the 16th of each month. These valuations are temporal as the markets are clearly constantly moving, and in addition they are exacerbated by the fact that the underlying instruments are generally relatively illiquid and therefore price movements can be exacerbated by extreme changes in sentiment.

The recent market movements are considered a significant post balance sheet event. The Company's most recently published post year end NAV, prepared as at 31 March 2020, showed that total net assets of the Company fell by 11.4% to £105.9 million. This was primarily driven by the value of investments falling from £131.2 million as at 31 December to £119.7 million as at 31 March 2020. The valuation was prepared by the Company's independent valuer. This portfolio revaluation is driven by all of the investments being marked reflect that perceived or actual risks have increased where visible price points are available these reference prices have been used. We expect these marks to return to normality as we move through this current crisis and as the "fear" levels subside.

Looking ahead to the rest of 2020, opportunities will arise. However, first and foremost will be the management of the existing portfolio. Largely the overall credit environment will be dictated by other global events – the Investment Manager will focus on the monitoring of the portfolio and ensuring scheduled payments are received. Given the unique nature of this event, and the almost wholesale shut down to industry, we expect monthly trading performance of a number of our borrowers to be impacted, the degree and severity will be subject to both sector specific factors, macro "health" factors and any structural credit support mechanisms built into the transaction/investment (for example funded interest reserve accounts). The Investment Manager in partnership with financial sponsors and borrowers will provide guidance and advice to holdings experiencing temporal stress, and aid in any workout situation as the case maybe.

The core investment theme of RMDL remains focused on lending to real assets and businesses which do not have direct correlations to the economic cycle. Such assets offer stable cashflows and downside protection to the Company and therefore investors. Overall, the Investment Management team believe that despite the recent market volatility the portfolio is well positioned to continue to deliver the stable returns which investors are seeking and in addition there will be greater NAV growth as we target a return to the opening NAV.

RM Capital Markets Limited

21 April 2020

Investment Policy, Results and Other Information

Investment objective

The Company aims to generate attractive and regular dividends through investment in secured debt instruments of UK SMEs and mid-market corporates and/or individuals including any loan, promissory notes, lease, bond, or preference share (such debt instruments, as further described below, being "Loans") sourced or originated by the Investment Manager with a degree of inflation protection through index-linked returns where appropriate.

Investment policy

The Company will seek to meet its investment objective by making investments in a diversified portfolio of Loans to UK SMEs and mid-market corporates, special purpose vehicles and/or to individuals. These Loans will generally be, but not limited to, senior, subordinated, unitranche and mezzanine debt instruments, documented as loans, notes, leases, bonds or convertible bonds. Such Loans shall typically have a life of 2-10 years. In certain limited cases, Loans in which the Company invests may have equity instruments attached, ordinarily any such equity interests would come in the form of warrants or options attached to a Loan. Typically the Loans will have coupons which may be fixed, index-linked or LIBOR linked.

For the purposes of this investment policy, UK SMEs include entities incorporated outside of the UK provided their assets and/or principal operations are within the UK. The Company is permitted to make investments outside of the UK to mid-market corporates.

Loans will be directly originated or sourced by the Investment Manager who will not invest in Loans sourced via or participations through, peer to peer lending platforms.

Loans in which the Company invests will be predominantly secured against assets such as real estate or plant and machinery and/or income streams such as account receivables.

The Company will make Loans to borrowers in a range of Market Sectors within certain exposure limits which will vary from time to time, according to market conditions and as determined by the Board, subject to the Investment Restrictions set out below.

The Company will at all times invest and manage its assets in a manner which is consistent to the spreading of investment risk.

Investment restrictions

The following investment limits and restrictions will apply to the Company's Loans and business which, where appropriate, shall be measured at the time of investment or once the Company is fully invested:

- the amount of no single Loan shall exceed 10% of Gross Assets;
- exposure to a single borrower shall not exceed 10% of Gross Assets;
- loans will be made across not less than four Market Sectors;
- not less than 70% of Gross Assets will be represented by Loans denominated in sterling or hedged back to sterling;
- loans made to borrowers in any one Market Sector shall not exceed 40% of Gross Assets;
- loans with exposure to project development/construction assets shall not exceed 20% of Gross Assets;
- the Company will not provide Loans to borrowers whose principal business is defence, weapons, munitions or gambling;
- the Company will not provide Loans to borrowers which generate their annual turnover predominantly from tobacco, alcohol or pornography; and
- the Company will not invest in other listed closed-ended funds.

In the event of a breach of the investment guidelines and restrictions set out above, the Investment Manager shall inform the Board upon becoming aware of the same and if the Board considers the breach to be material, notification will be made to a Regulatory Information Service and the Investment Manager will look to resolve the breach with the agreement of the Board.

The Company intends to conduct its affairs so as to qualify as an investment trust for the purposes of section 1158 of the Corporation Tax Act 2010, and its investment activities will therefore be subject to the restrictions set out above.

Borrowing and gearing

The Company intends to utilise borrowings for investment purposes as well as for share buybacks and short-term liquidity purposes. Gearing represented by borrowings, including any obligations owed by the Company in respect of an issue of zero dividend preference shares (whether issued by the Company or any other member of its group) or any third-party borrowings, will not, in aggregate exceed 20 per cent. of Net Asset Value calculated at the time of drawdown.

Investment Policy, Results and Other Information

continued

Hedging and derivatives

The Company may invest in derivatives for efficient portfolio management purposes. In particular the Company can engage in interest rate hedging. Loans will primarily be denominated in sterling, however the Company may make limited Loans denominated in currencies other than sterling and the Board, at the recommendation of the Investment Manager, may look to hedge any other currency back to sterling should they see fit.

In accordance with the requirements of the UK Listing Authority, any material change to the Company's investment policy will require the approval of Shareholders by way of an ordinary resolution at a general meeting.

RM ZDP plc

RM ZDP plc ("RM ZDP"), a public limited company incorporated under the laws of England and Wales was incorporated on 21 February 2018. RM ZDP is a wholly owned subsidiary of the Company. RM ZDP was established solely for the purpose of issuing zero dividend preference shares of GBP 0.01 each ("ZDP Shares").

On 3 April 2018, RM ZDP was admitted to the standard segment of the Official List of the UK Listing Authority and its ZDP Shares were admitted to trading on the London Stock Exchange's main market for listed securities. The proceeds from the issuance of the ZDP Shares have been loaned to the Company by way of an intercompany loan agreement (the "Loan Agreement"). The Company also granted RM ZDP an undertaking to ensure that RM ZDP has sufficient assets to satisfy its obligations to the ZDP Shareholders and pay any operational costs incurred by RM ZDP.

RM ZDP raised gross proceeds of £10,869,950 through the issue of ZDP Shares.

The Board intend that RM ZDP plc be put into voluntarily liquidation through a General Meeting on 6 April 2021, for the purpose of proposing a resolution to wind up the ZDP Subsidiary voluntarily, with the assets of the RM ZDP then available for distribution through an equity issue or liquidity.

Dividend policy

Dividends are expected to be declared by the Directors in May, August, November and February of each year in respect of the preceding quarter with dividends being paid in June, September, December and March.

The last dividend in respect of any financial year is declared prior to the relevant annual general meeting. Therefore, it is declared as a fourth interim dividend and no final dividend is payable. The Board understands that this means that Shareholders will not be given the opportunity to vote on the payment of a final dividend. However, the Board believe that the payment of a fourth interim dividend as opposed to a final dividend is in the best interests of Shareholders as it provides them with regularity on the frequency of dividend payments and avoids the delay to payment which would result from the declaration of a final dividend. A resolution will be put forward at the Annual General Meeting to approve the policy of declaring and paying all dividends of the Company as interim dividends.

The Company targeted an annualised dividend yield in excess of 6.5% for the financial year to 31 December 2019.

Investors should note that the targeted annualised dividend yields are targets only and not profit forecasts and there can be no assurance that either will be met or that any dividend growth will be achieved.

Results and dividend

The consolidated financial statements include the results of the Company and its subsidiary RM ZDP plc (the "Group"). The Group revenue return after tax for the year ended 31 December 2019 amounted to £9,816,000 (2018: £5,910,000). The Group made a capital loss after tax of £1,288,000 (2018: loss of £1,603,000). Therefore, the total return after tax for the Group was £8,528,000 (2018: £4,307,000).

The first interim dividend of 1.625p per Ordinary Share and an additional special dividend of 0.375 pence per Ordinary Share was declared on 1 May 2019 in respect of the period from January to March 2019. The Board elected to pay the special dividend following a period of portfolio outperformance in the quarter ended March 2019, arising from the early repayment of loans and associated prepayment compensation. The second interim dividend of 1.625p per Ordinary Share for the quarter ended 30 June 2019 was declared on 7 August 2019 and the third interim dividend of 1.625p per Ordinary Share and an additional special dividend of 0.075 pence per Ordinary Share for the quarter ended 30 September 2019 was declared on 5 November 2019. The Board elected to pay the special dividend following portfolio outperformance in the quarter ended September 2019. On 25 February 2020, the Board declared a fourth interim dividend of 1.625 pence per Ordinary share and an additional special dividend of 0.075 pence per Ordinary Share for the quarter to 31 December 2019.

Key performance indicators ("KPIs")

The Board measures the Group's success in attaining its investment objective by reference to the following KPIs:

(i) Dividends

The Group has paid or proposed four interim dividends totalling, in aggregate, 7.025 pence per Ordinary Share, equivalent to 7.0% based on the Ordinary Share issue price of £1 per share at Admission. The targeted annualised dividend yield of 6.5% has therefore been met during the year.

(ii) Total return

The Group's total return is monitored by the Board. The Ordinary Shares generated a NAV total return of 8.2% (2018: 5.5%) in the year ended 31 December 2019.

(iii) Discount/premium to NAV

The discount/premium relative to the NAV per share represented by the share price is closely monitored by the Board. The Ordinary Share price closed at a 1.7% premium (2018: 4.7%) to the NAV as at 31 December 2019.

(iv) Control of the level of ongoing charges

The Board monitors the Company's operating costs. Based on the Company's average net assets for the year ended 31 December 2019, the Group's ongoing charges figure calculated in accordance with the AIC methodology was 1.77% (2018: 1.93%). The Board considers this level to be reasonable.

Principal risks and uncertainties

Together with the issues discussed in the Chairman's Statement and the Investment Manager's Report, the Board considers that the principal risks and uncertainties faced by the Group fall into the following main categories:

(i) Market risks

Availability of appropriate investments

There is no guarantee that loans will be made in a timely manner.

Before the Group is able to make or acquire loans, the Investment Manager is required to complete necessary due diligence and enter into appropriate legal documentation. In addition, the Group may become subject to competition in sourcing and making investments. Some of the Group's competitors may have greater financial, technical and marketing resources or a lower cost of capital and the Group may not be able to compete successfully for investments. Competition for investments may lead to the available interest coupon on investments decreasing, which may further limit the Group's ability to generate its desired returns.

If the Investment Manager is not able to source a sufficient number of suitable investments within a reasonable time frame whether by reason of lack of demand, competition or otherwise, a greater proportion of the Group's assets will be held in cash for longer than anticipated and the Group's ability to achieve its investment objective will be adversely affected. To the extent that any investments to which the Group is exposed prepay, mature or are sold it will seek to reinvest such proceeds in further investments in accordance with the Group's investment policy.

Market sectors

Loans will be made to borrowers that operate in different market sectors each of which will have risks that are specific to that particular market sector.

UK exit from the European Union

Following the exit of the UK from the EU on 31 January 2020 under the Withdrawal Agreement the UK is currently subject to a transition period which will run until the end of 2020 (unless extended). During the transition period the UK remains in the Single Market and the Customs Union of the EU while the terms of a new trade agreement are negotiated. If those negotiations are not completed and ratified before the end of the Transition Period, World Trade Organisation rules may apply.

The extent of the impact on the Group will depend in part on the new trade agreement that is put in place between the UK and the EU and the extent to which the UK continues to apply laws that are based on EU legislation. In addition, the macroeconomic effect on the value of investments in the lending market and, by extension, the value of investments in the portfolio is unknown. As such, it is not possible to state the impact that Brexit will have on the Group and its investments. It could also potentially make it more difficult for the Group to raise capital in the EU and/or increase the regulatory compliance burden on the Group. This could restrict the Group's future activities and thereby negatively affect returns.

Investment Policy, Results and Other Information

continued

Management of risks

The Group has appointed an experienced Investment Manager who directly sources loans. The Group is investing in a wide range of loan types and sectors and therefore benefits from diversification. Investment restrictions are relatively flexible giving the advisor ability to take advantage of diverse loan opportunities.

The Investment Manager, AIFM, Broker and the Board review market conditions on an ongoing basis.

The Company expects uncertainty around Brexit to continue during this transition period and until the terms of a new trade agreement are negotiated. The position is, however, being monitored as negotiations continue and the impact on the Company will be reassessed accordingly.

(ii) Risks associated with meeting the Group's investment objective or target dividend yield

The Group's investment objective is to generate attractive and regular dividends through investment in loans sourced or originated by the Investment Manager and to generate capital appreciation by virtue of the fact that the returns on some loans will be index-linked. The declaration, payment and amount of any future dividends by the Group will be subject to the discretion of the Directors and will depend upon, amongst other things, the Group successfully pursuing the investment policy and the Group's earnings, financial position, cash requirements, level and rate of borrowings and availability of profit, as well the provisions of relevant laws or generally accepted accounting principles from time to time.

Management of risks

The Investment Manager has a well-defined investment policy and process which is regularly and rigorously reviewed by the independent Board of Directors and performance is reviewed at quarterly Board meetings. The Investment Manager is experienced and employs its expertise in making investments in a diversified portfolio of loans. The Investment Manager has a target portfolio yield which covers the level of dividend targeted by the Group. The Board reviews the position at board meetings.

(iii) Financial risks

The Group's investment activities expose it to a variety of financial risks which include liquidity, currency, leverage, interest rate and credit risks.

Further details on financial risks and the management of those risks can be found in note 21 to the financial statements.

(iv) Corporate governance and internal control risks (including cyber security)

The Group has no employees and the Directors have all been appointed on a non-executive basis. The Group must therefore rely upon the performance of third-party service providers to perform its executive functions. In particular, the AIFM, the Investment Manager, the Administrator, the Group Secretary and the Registrar, will perform services that are integral to the Group's operations and financial performance.

Poor performance of the above service providers could lead to various consequences including the loss of the Group's assets, inadequate returns to Shareholders and loss of investment trust status. Cyber security risks could lead to breaches of confidentiality, loss of data records and inability to make investment decisions.

Management of risks

Each of the above contracts was entered into after full and proper consideration of the quality and cost of services offered, including the financial control systems in operation in so far as they relate to the affairs of the Group. All of the above services are subject to ongoing oversight of the Board and the performance of the principal service providers is reviewed on a regular basis. The Group's key service providers report periodically to the Board on their procedures to mitigate cyber security risks.

(v) Regulatory risks

The Group and its operations are subject to laws and regulations enacted by national and local governments and government policy. Compliance with, and monitoring of, applicable laws and regulations may be difficult, time consuming and costly. Any change in the laws, regulations and/or government policy affecting the Group or any changes to current accountancy regulations and practice in the UK may have a material adverse effect on the ability of the Group to successfully pursue its investment policy and meet its investment objective and/or on the value of the Group and the shares. In such event, the performance of the Group, the Net Asset Value, the Group's earnings and returns to Shareholders may be materially adversely affected.

Management of risks

The Group has contracted out relevant services to appropriately qualified professionals. The Secretary and AIFM report on compliance matters to the Board on a quarterly basis and the Board has access to the advice of its Corporate Broker on a continuing basis. The assessment of regulatory risks forms part of the Board's risk assessment programme.

(vi) Emerging risks and uncertainties

The Group periodically carries out a robust assessment of the Company's emerging and principal risks and the procedures in place to identify these risks. The experience and knowledge of the Board is invaluable to these discussions, as is advice received from the Board's service providers, specifically the AIFM who is responsible for the risk and portfolio management services and outsources the portfolio management to the Investment Adviser. The following is a description of the emerging risks that each service provider highlights to the Board on a regular basis to aid in the identification of emerging risks.

1. **Investment Manager:** the Investment Manager provides a report to the Board at least quarterly on industry trends, insight to future challenges in the sector, including the regulatory, political and economic changes likely to impact the Group;
2. **Alternative Investment Fund Manager:** following advice from the Investment Manager and other service providers, the AIFM maintains a register of identified risks including emerging risks likely to impact the Company;
3. **Broker:** provides advice periodically, specific to the Company on the Company's sector, competitors and the investment company market whilst working with the Board and Investment Manager to communicate with Shareholders;
4. **Company Secretary and Auditor:** briefs the Board on forthcoming legislation and regulatory change that might impact on the Company. The Auditor also has specific briefings at least annually;
5. **AIC:** the Company is a member of the AIC, which provides regular technical updates as well as drawing members' attention to forthcoming industry and regulatory issues.

COVID-19 has been met by a large stimulus by the Government, an injection of £350 billion, with the intention of protecting the economy against the coronavirus impact, however at this point in time it is difficult to know how this will be translated in the economy and the outcome is uncertain. It may be the case that it will have a beneficiary effect on the economy and be inflationary, however the situation is unknown. The operational risks as a result of the COVID-19 pandemic were discussed by the Board. Updates on operational resilience were received from the Investment Manager, Administrator and other key service providers. The Board were satisfied that the key service providers have the ability to continue to operate.

The impact of Covid-19 on the markets and the Company's financial position are closely monitored by the Investment Manager and the Board. Please refer to the Chairman's statements and Investment Manager on pages 4 and 8 for their assessment.

Management of risks

The Board regularly reviews the Company's risk matrix, focussing on risk mitigation and ensuring that the appropriate controls are in place. Regular review ensures that the Group operates in line with the risk management policy, prospectus and investment strategy. Emerging risks are actively discussed throughout the year to ensure that risks are identified and managed so far as practicable. The experience and knowledge of the Board is invaluable to these discussions, as is advice received from the Board's service providers.

Viability statement

The Directors have assessed the viability of the Group for the five years to 31 December 2024 (the "Period") as they consider this to be an appropriate time horizon, taking into account the long-term nature of the Group's investment strategy, and the weighted average life of the Group's loan instruments.

In their assessment of the prospects of the Group, the Directors have considered each of the principal risks and uncertainties set out above and the liquidity and solvency of the Group. The Directors have considered the Group's income and expenditure projections and believe that they meet the Group's funding requirements. Portfolio activity and market developments are discussed at each quarterly Board meeting. The internal control framework of the Group is subject to a formal review on a regular basis.

The Group's income from investments provides substantial cover to the Group's operating expenses and any other costs likely to be faced by the Group over the period of their assessment.

The Chairman's Statement and Investment Manager's Report present the positive long-term investment case for secured debt instruments which also underpins the Group's viability for the Period.

Shareholders should note that before the Company's fourth annual general meeting, and at subsequent three yearly intervals, the Board currently intends (at its discretion) to formulate and submit to Shareholders, proposals (which may constitute a tender offer or other method of distribution) to provide an opportunity to realise the value of their Shares at or near the prevailing Net Asset Value per Share less costs. The Directors have assumed, for the purposes of its viability assessment, that the next liquidity opportunity will not reduce the Group to a size whereby it is not viable.

Based on this assessment, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due in the Period.

Investment Policy, Results and Other Information

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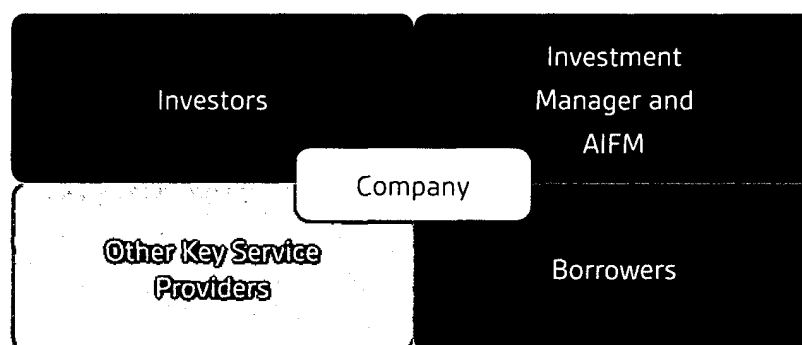
Environmental matters

The Group has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Promoting the success of RM Secured Direct Lending plc

The Board have a statutory duty to promote the long-term success of the Company for the benefit of its shareholders as a whole and, in doing so the Board are required to consider the likely consequences of their actions over the long-term and on other stakeholders and the environment. The Directors are required to describe how they have had regard to matters set out in section 172 of the Companies Act 2006.

The Board is ultimately responsible for all stakeholder engagement, however as an externally managed investment company, RMDL does not have any employees, rather it employs external suppliers to fulfil a range of functions, including investment management, secretarial, custodial, broking, valuation and banking services. All these service providers help the Board to fulfil its responsibility to engage with stakeholders and it should be noted are also, in-turn, stakeholders themselves. The Company's main stakeholders are as set out in the below diagram which shows the relationship between the Company and each of its stakeholders.



Key Service Providers

The Board believes that positive relationships with each of the Company's service providers and between service providers is important in supporting the Company's long-term success.

In order to foster strong working relationships, the Company's key service providers (the Investment Manager, Alternative Investment Fund Manager ("AIFM"), Broker, Company Secretary and Administrator) are invited to attend each quarterly Board meeting to present their respective reports which enables the Board to exercise effective oversight of the Company's activities.

Separately, the Auditor is invited to attend the Audit and Management Engagement Committee meeting at least once per year. The Audit and Management Engagement Committee Chair maintains regular contact with the Audit Partner to ensure the Audit process is undertaken effectively.

The Board and advisers seek to maintain constructive relationships with the Company's suppliers on behalf of the Company through regular communications, meetings and the provision of relevant information and update meetings.

The most significant service provider for the Company's long-term success is the AIFM who have engaged the Investment Manager for the purpose of providing investment advisory services to the Company. The Board regularly monitors the Company's investment performance in relation to its objectives and investment policy and strategy. The Board receives and reviews regular reports and presentations from both the AIFM and Investment Manager and seeks to maintain regular contact to maintain a constructive working relationship.

On an annual basis the Board reviews the continuing appointment of each service provider to ensure re-appointment is in the best interests of the Company's shareholders.

Shareholders

The Company offers investors a different asset class, with a substantial yield generated on a sustainable basis from long-term assets with predictable income streams and a strong pipeline. Any lending business needs to correctly assess and manage credit. The Company has all these characteristics. The market has given it a small premium to NAV, reflecting these traits and a material element of market-driven valuation.

To help the Board in its aim to act as fairly as possible between the Company's members, it seeks to ensure effective communication is provided to all Shareholders. Meetings with Shareholders help the Board to better understand their needs and concerns and will inform the Board's decision making. The Annual General Meeting is an annual appointment at which any Shareholder can meet the full Board, in addition to which the Directors meet with Shareholders on request throughout the year. The Board and Investment Manager, with the help of the Company's Brokers organise a Capital Markets Day on an annual basis. The event includes presentations by the Company's Investment Manager and certain borrowers funded by the Company since its launch.

The Board believes that shareholders can only make informed decisions if they have access to relevant information on a timely basis. To provide transparency a variety of methods of communication are used. The Company's website – <https://rmdl.co.uk/> – is considered an essential communication channel and information hub for shareholders. As such, it includes full details of the investment objective, along with news, opinions, disclosures, results and key information documents. The Annual and Interim reports and accounts are published on the Company's website and available in a hard copy on request. The date of the AGM is published in advance (online and within the annual report) and the full Board is available to meet and speak with all Shareholders who attend it. Directors are also available to meet with Shareholders during the year. In addition, factsheets, providing performance information are published monthly and are available on the Company's website.

In response to Shareholder demand, the Company successfully raised £13.5 million in March 2019 as part of the Company's placing programme. In addition, in November 2019, the Investment Manager met with a number of investors and successfully raised £10 million by way of a placing. Following these fundraisings the Company has 122,224,581 Ordinary Shares in issue. The placings were in response to investor demand and provide additional funding for investment opportunities, which over time will enable the Company to further diversify its existing portfolio, spreading the fixed costs of running the Company across a wider base and increase secondary market liquidity for investors.

Borrowers

The Investment Manager ensures that the Company applies the correct approach to credit, limiting the probability of default and reducing any loss in the event of default. The Company's credit risk is well controlled, significantly reducing the risk that impairments will put the dividend under pressure.

When considering prospective borrowers, the Investment Manager takes into account two credit considerations:

- how much debt can the borrower afford to take on? The Investment Manager will assess the maximum level of the debt the borrower can afford by using internal proprietary models. This sizing is determined by the levels of visible net cash-flows the borrower has. The Investment Manager believes that this is the most suitable metric for determining repayment by the borrower rather than simple turnover or sales-based metrics; and
- how secure are the assets and/or the cash-flows that the Company has security over? The Investment Manager will assess the assets of the borrower and their likely residual values and/or cash flows and their continued viability.

The Investment Manager has long standing relationships with Investment Banks, Commercial Banks, Challenger Banks, Financial Advisory Firms, Sponsors and Borrowers, providing access to investment opportunities.

Environmental, Social and Governance ("ESG")

In recognition of the need to fulfil the Company's investment objective of generating attractive and regular dividends, the Board works closely with the Investment Manager in developing its investment strategy and underlying policies, in order to fulfil its investment objective, in an effective and responsible way in the interests of shareholders, potential investors and the wider community.

The Board and the Investment Manager believe that responsible investment is important and involves the integration of ESG factors within the investment process. This is discussed on page 6 of the Investment Manager's report, focussing on the Company's approach towards responsible investment and how ESG factors are currently incorporated and prioritised as part of the investment process. In addition the Investment Manager's report notes that the Investment Manager is a signatory to the Principles for Responsible Investment, supported by the United Nations, a framework of six principles, which RM Funds has incorporated into its business. The Board is supportive of this approach, which focuses on engagement with investee companies on ESG issues.

Culture

A company's culture would typically be defined as the beliefs and behaviours that determine how a company's employees and management interact. As an investment trust the Company has no employees but it recognises the importance of culture and the need to align the culture with the Company's investment policy, values and strategy. The Board's culture promotes strong governance and debate and the Company is committed to acting professionally, fairly and with integrity in all its business dealings and relationships in which it operates, mindful of the interests of all stakeholders.

Investment Policy, Results and Other Information

continued

Employees

The Group has no employees. As at 31 December 2019 the Company had three Directors of whom one is female and two are male. The Board's policy on diversity is contained in the Corporate Governance Report (see page 27).

Social, community and human rights issues

The Company, as an investment company, has no direct impact on social, community, environmental or human rights matters.

Modern slavery disclosure

Due to the nature of the Group's business, being a Group that does not offer goods or services to consumers, the Board considers that it is not within the scope of modern slavery. The Board considers the Group's supply chains, dealing predominately with professional advisers and service providers in the financial service industry, to be low risk in relation to this matter.

Outlook

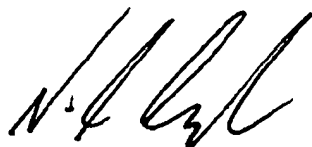
The outlook for the Group is discussed in the Chairman's Statement on page 4.

Strategic report

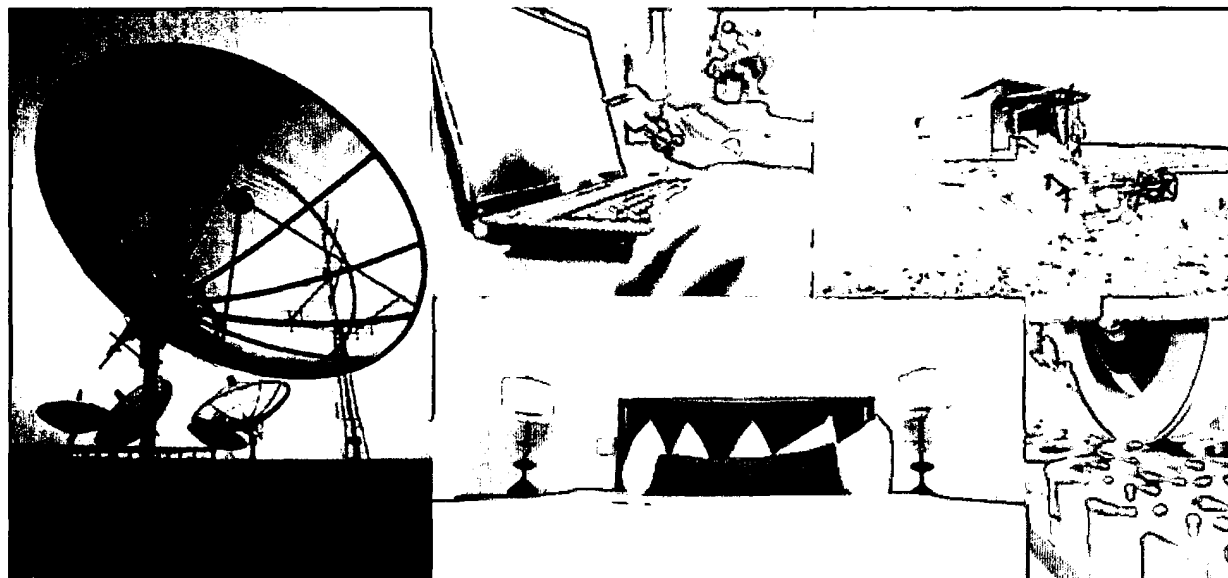
The Strategic Report set out on pages 1 to 18 of this Annual Report was approved by the Board of Directors on 21 April 2020.

For and on behalf of the Board

Norman Crighton
Chairman
21 April 2020



Portfolio



Largest 10 loans by drawn amounts across the entire portfolio as at 31 December 2019

Business activity	Investment type (Private/Public/Bond)	Valuation £'000	Percentage of net asset
Asset Lending	Private loan	10,194	7.8
Hotels	Private loan	8,504	6.5
Hotels	Private loan	8,296	6.3
Automotive Parts Manufacturing	Private loan	6,684	5.1
Forecourt Operator	Private loan	6,624	5.1
Gym franchise	Private loan	6,300	4.8
Business Services	Private loan	6,296	4.8
Student Accommodation	Private loan	5,969	4.6
Student Accommodation	Private loan	5,930	4.5
Healthcare	Private loan	5,620	4.3
Ten largest holdings		70,417	53.8
Other private loan investments		54,462	41.6
Bond investments		6,322	4.8
Total holdings		131,201	100.2
Other net liabilities		(132)	(0.2)
Gross assets*		131,069	100.0

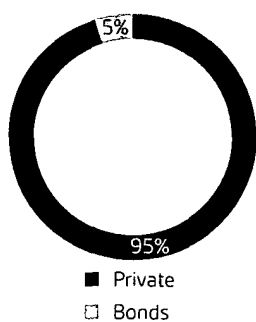
* The above is based on the Group's net assets before deduction of ZDP Shares capital entitlement.

Portfolio

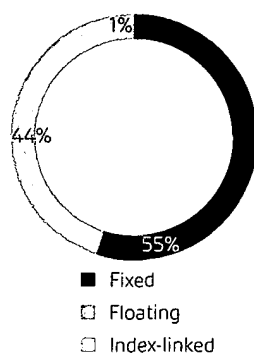
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Portfolio Analysis

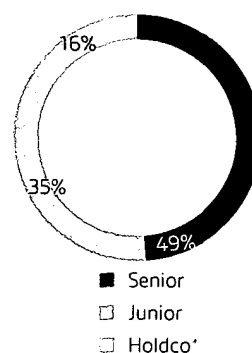
Instrument Type



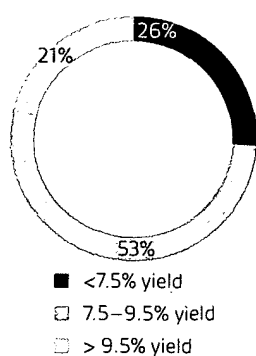
Coupon Type



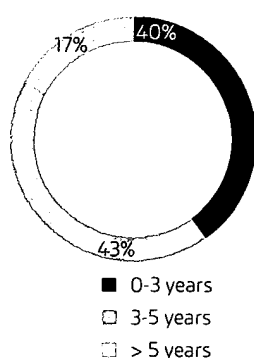
Instrument Type



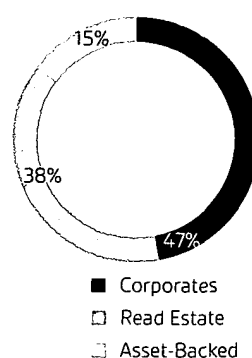
Annualised yield



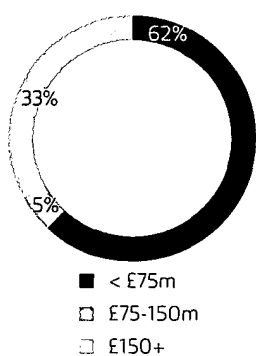
Weighted average life



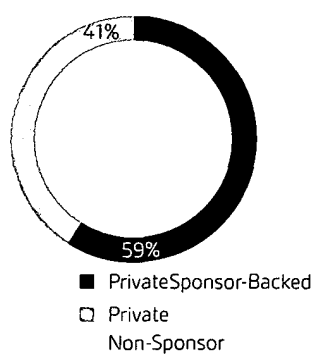
Loans split by Investment type



Size of Borrower, split by Revenues



Ownership profile of Borrowers



* Holdco debt is senior debt structurally subordinated.

Directors' Report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2019.

Strategic report

The Directors' Report should be read in conjunction with the Strategic Report on pages 1 to 18.

Corporate governance

The Corporate Governance Statement on pages 24 to 28 forms part of this report.

Legal and taxation status

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006. The manner in which the Company conducts its affairs meets the requirements for approval as an investment trust under Section 1158 of the Corporation Tax Act 2010. The Company has received approval as an investment trust and the Company must meet eligibility conditions and ongoing requirements in order for investment trust status to be maintained. In the opinion of the Directors, the Company has met the conditions and requirements for approval as an investment trust for the year ended 31 December 2019 and intends to continue to do so.

Investment Manager

RM Capital Markets Limited is the Group's Investment Manager. RM Capital Markets Limited is regulated by the Financial Conduct Authority.

The Investment Manager is appointed under a contract subject to twelve months' notice with such notice not to expire prior to the third anniversary of first admission of the Ordinary Shares to trading on the London Stock Exchange.

The Investment Manager is entitled to remuneration each month at a rate equivalent to one twelfth of 0.875% (if over £75 million) or 0.50% (if under £75 million) per calendar month of the Net Asset Value of the Company. Until the period ending on the third anniversary of Admission, the Investment Manager shall apply 50% of the quarterly Management Fee received in subscribing for shares at Net Asset Value and/or purchasing shares in the market. Although the IPO lock-in period has now expired (as at 15 December 2019) any shares that the Investment Manager is issued as part of its management fee are locked-in for a 12 month period from the date of issue and in addition there is a 12 month period (to 15 December 2020) where any disposal of shares needs to be done through the Company's broker so as to create an orderly market in the shares. The Investment Manager is continuing with share purchase commitment, however, as agreed by the Board, the Investment Manager has been selling shares eligible for sale, which are netted off against shares which would otherwise have been acquired.

In accordance with the Directors' policy on the allocation of expenses, 100% of the management fee payable is charged to revenue.

The Board reviews this policy on a periodic basis and confirms this allocation remains consistent with their expectations of future returns from the portfolio.

Alternative Investment Fund Manager ("AIFM")

International Fund Management Limited act as Alternative Investment Fund Manager of the Company for the purposes of the Alternative Investment Fund Manager's Directive ("AIFMD") subject to the overall supervision of the Board. The AIFM has delegated responsibility for the management of the Group's portfolio to the Investment Manager through an Investment Management Agreement.

Under the terms of the AIFM Agreement and with effect from Admission, the AIFM shall be entitled to receive from the Company a fee to be calculated and accrued monthly in arrears at a rate equivalent to 0.125% of the Company's NAV subject to an annualised minimum of £85,000 applied on a monthly basis. An annual review of the minimum fee will take place on 1 May each year with the first review carried out in 2019. The AIFM is also entitled to reimbursement of reasonable expenses incurred by it in the performance of its duties.

The AIFM Agreement is terminable by either the AIFM or the Company giving to the other not less than 6 months' written notice. The AIFM Agreement may be terminated with immediate effect on the occurrence of certain events, including insolvency, on a change of control of the AIFM or in the event of a material breach which fails to be remedied within 30 days of receipt of notice. The AIFM Agreement shall terminate immediately if the Investment Management Agreement is terminated for whatever reason.

Directors' Report

continued

The AIFM must ensure that an annual report containing certain information on the Group is made available to investors for each financial year.

Leverage (under AIFMD)

The AIFM is required to set leverage limits as a percentage of net assets for the Group utilising methods prescribed under AIFMD. These methods are known as the Gross Method and the Commitment Method. Under both methods the AIFM has set current maximum limits of leverage for the Group of 120%. A leverage percentage of 100% equates to nil leverage. The Group's leverage under each of these methods at the year end is shown below:

	Gross method	Commitment method
Maximum leverage limit	120%	120%
Actual leverage at 31 December 2019	112%	112%

Management engagement

The Board has reviewed the Investment Manager's and AIFM engagement, including its management processes, risk controls and the quality of support provided to the Company and believes that its continuing appointment, on its current terms, remains in the interests of shareholders at this time. Such a review is carried out on an annual basis. The last review was undertaken at a meeting of the Management Engagement Committee held on 4 November 2019.

Special reserve

In order to increase the distributable reserves available to facilitate the payment of future dividends, on 15 March 2017, the amount standing to the credit of the share premium account of the Company immediately following completion of the first issue of Ordinary Shares was cancelled and transferred to a Special reserve. The Group may, at the discretion of the Board, pay all or part of any future dividends out of this Special reserve, taking into account the Group's investment objective. Dividends will normally be funded through investment in Loans sourced or originated by the Investment Manager.

Share issues

On 8 March 2019 the Company announced that it had raised £13.5 million via a Placing. A further Placing was undertaken later in the year and on 12 November 2019 the Company announced that it had raised £10 million.

The Board recommends that the Company be granted a new authority to allot up to a maximum of 24,344,916 Ordinary Shares (representing approximately 20% of the shares in issue, excluding Shares held in treasury, at the date of this document) and to dis-apply pre-emption rights when allotting those Ordinary Shares and/or selling shares from treasury. Resolutions to this effect will be put to Shareholders at the Annual General Meeting and are contained in the Notice of Annual General Meeting.

The maximum number of Ordinary Shares which can be admitted to trading on the London Stock Exchange without the publication of a prospectus is 20% of the Ordinary Share Capital on a rolling previous 12 month basis at the time of admission of the shares.

Treasury shares

The Companies Act allows companies to hold shares acquired by way of market purchases as treasury shares, rather than having to cancel them. This would give the Company the ability to re-issue Ordinary Shares quickly and cost effectively, thereby improving liquidity and providing the Group with additional flexibility in the management of its capital base. No Ordinary Shares will be sold from treasury at a price less than the (cum income) Net Asset Value per existing Ordinary Share at the time of their sale unless they are first offered pro rata to existing Shareholders. No Ordinary Shares were bought back during the year ended 31 December 2019.

Discount management

The Group may seek to address any significant discount to NAV at which its Ordinary Shares of the Company may be trading, through tender offers, buy-backs and the provision of a liquidity opportunity, as appropriate.

The Directors will consider repurchasing shares in the market if they believe it to be in Shareholders' interests.

The Directors may, at their absolute discretion, use available cash to purchase in the market, shares of a class in issue at any time, subject to having been granted authority to do so, should the shares of such class trade at an average discount to Net Asset Value (calculated

daily in accordance with the methodology set out below) of more than 6% as measured each month over the preceding six month trading period. The average discount will be calculated by dividing the sum of the discount or premium (as the case may be) on each business day in a calendar month (adjusted for dividends) by the number of such business days. The premium or discount on any given day is to be calculated by reference to the closing share price and the Net Asset Value announced for that month.

In exercising their powers to buy back shares, the Directors have complete discretion as to the timing, price and volume of shares so purchased. No expectation or reliance should be placed on the Directors exercising such discretion on any one or more occasions.

The Directors have the authority to make market purchases of Ordinary Shares. The maximum price (exclusive of expenses) which may be paid for an Ordinary Share must not be more than the higher of: (i) 5% above the average of the mid-market values of the Ordinary Shares for the five Business Days before the purchase is made; or (ii) the higher of the price of the last independent trade and the highest current independent bid for the Ordinary Shares. Ordinary Shares will be purchased only at prices below the prevailing NAV per Ordinary Share, which should have the effect of increasing the NAV per Ordinary Share for remaining Shareholders.

It is intended that a renewal of the authority to make market purchases will be sought from Shareholders at each annual general meeting of the Company and such a resolution will be put forward at the forthcoming Annual General Meeting. Purchases of Ordinary Shares will be made within guidelines to be established from time to time by the Board. Any purchase of Ordinary Shares would be made only out of the available cash resources of the Group. Ordinary Shares purchased by the Company may be held in treasury or cancelled.

Purchases of Ordinary Shares may be made only in accordance with the Articles of Association, the Companies Act, the Listing Rules and the Disclosure Guidance and Transparency Rules.

Since the Company's year end, the Board decided to make use of its share buyback powers as a means of correcting any imbalance between supply of and demand for the Ordinary Shares.

During the year ended 31 December 2019 the Company had not purchased any of its own Ordinary Shares, however since the year end the Company has bought back 500,00 ordinary shares, which are held in treasury.

Liquidity opportunity

Before the Company's fourth annual general meeting (May 2021), and at subsequent three yearly intervals, the Board intends to formulate and submit to Shareholders, proposals (which may constitute a tender offer or other method of distribution) to provide an opportunity to realise the value of their Shares at, or near, the prevailing Net Asset Value per Share less costs.

Market information

The Company's share capital is listed on the London Stock Exchange. The NAV per Share is calculated in sterling for each business month that the London Stock Exchange is open for business. The monthly NAV per Share is published through a regulatory information service.

Capital structure and voting rights

At the year end, the Company's issued share capital comprised 122,224,581 Ordinary Shares of 1 pence nominal value. Each holder of Shares is entitled to one vote.

All Shares carry equal voting rights and there are no restrictions on those voting rights. Voting deadlines are stated in the Notice of Meeting and Form of Proxy, at the end of this document, and have been set in accordance with the Companies Act 2006.

There are no restrictions on the transfer of Ordinary Shares, nor are there any limitations or special rights associated with the Shares.

On 8 March 2019 the Company announced that it had raised £13.5 million via a Placing. A further placing was undertaken later in the year and on 12 November 2019 the Company announced that it had raised £10 million.

Therefore as at 31 December 2019, there were 122,224,581 Ordinary Shares in issue. Since the year end, the Company has bought 500,000 shares, which are held in treasury.

Directors' Report

continued

Significant Shareholders

As at 31 December 2019, the Directors have been formally notified of the following interests comprising 3% or more of the issued share capital of the Company:

	As at 31 December 2019	
	Ordinary Shares held	% of voting rights held*
CCLA Investment Management Limited	20,679,229	16.92
Quilter Plc	20,049,458	16.40
Brooks Macdonald Asset Management Limited	5,375,799	4.39
CG Asset Management	5,277,000	4.32
Hawksmoor Investment Management Limited	4,745,231	4.23

* Based on Ordinary Shares in issue as at 31 December 2019.

Since the year end, the Company has been formally notified that the Quilter Plc holding in the Company has decreased to 18,674,458 (15.23%) Ordinary Shares. The Company has also been formally notified that the CCLA Investment Management Limited holding in the Company has decreased to 19,328,166 (15.88%) Ordinary Shares.

Settlement of Ordinary Share transactions

Ordinary Share transactions in the Company are settled by the CREST share settlement system.

Revolving credit facility

The Group has a revolving credit facility with Oak North Bank. On 1 November 2019, the Group renewed and amended its Revolving Credit Facility with Oak North Bank. Under the terms of the amended Revolving Credit Facility, the Company may draw down loans up to an aggregate value of £10.5 million, on materially similar terms as the Company's previous RCF. The new facility will expire in November 2020.

Custodian

US Bank Global Corporate Trust Services act as the Company's custodian.

Company Secretary & Administrator

PraxisIFM Fund Services (UK) Limited is the Company Secretary and Administrator of the Company and the Group, providing administration services including calculation of its monthly Net Asset Value.

Valuation agent

Mazars LLP has been appointed as the Group's valuer to value the Group's loan investments in accordance with IFRS.

Anti-bribery and corruption

It is the Group's policy to conduct all of its business in an honest and ethical manner. The Group takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever it operates. The Group's policy and the procedures that implement it are designed to support that commitment.

Notice of general meetings

At least twenty-one days' notice shall be given to all the members and to the auditors. All other general meetings shall also be convened by not less than twenty-one days' notice to all those members and to the auditors unless the Company offers members an electronic voting facility and a special resolution reducing the period of notice to not less than fourteen days has been passed, in which case a general meeting may be convened by not less than fourteen days' notice in writing. A special resolution will be proposed at the Annual General Meeting to reduce the period of notice for general meetings other than the Annual General Meeting to not less than fourteen days.

Going concern

The Directors have adopted the going concern basis in preparing the consolidated financial statements. The following is a summary of the Directors' assessment of the going concern status of the Group, which should be read in conjunction with the viability statement on page 13.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of this document. In reaching this conclusion, the Directors have considered the Group's portfolio of loan investments of £131.2 million (2018: £102.6 million) as well as its income and expense flows and the cash position of £8.4 million (2018: £8.1 million). The Group's net assets at 31 December 2019 were £119.5 million (2018: £95.7 million). The total expenses (excluding finance costs and taxation) for the year ended 31 December 2019 were £2.3 million (2018: £2.0 million), which represented approximately 1.77% (2018: 1.90%) of average net assets during the year. At the date of approval of this document, based on the aggregate of investments and cash held, the Group has substantial operating expenses cover.

In light of the Covid-19 pandemic the Directors have fully considered each of the Group's loans. Income obligations have been met by borrowers and there is a diverse portfolio of Loan investments; Directors do see an increase in the risk to the income from any of Group loans within the portfolio as the outlook is uncertain. However these loans have a number of specific lender protections (such as loan to value covenants and cashflow or earnings covenants) which are being monitored. A prolonged and deep market decline could lead to falling values to the underlying business or interruptions to cashflow, however the Group currently has more than sufficient liquidity available to meet any future obligations.

Given the level of market volatility experienced since the year end due to the impact of the COVID-19 pandemic, the Investment Manager has performed stress tests on the Group's income and expenses and the Directors remain comfortable with the liquidity of the Company.

At the date of approval of this document, it is estimated that approximately 33.0% by value of the investments held at the year end could be realised in two months as these are traded. Based on the expected realised value of investments and cash held, the Company has substantial operating expenses cover and other cash flows are at the discretion of the Board. The Directors also considered the Group's revolving credit facility of £10.5million to meet future obligations. As at the date the annual report was released, the undrawn amount of this facility was £5.8 million.

The Directors have also considered the liquidity opportunity and confirm that the proposals submitted to Shareholders will take into consideration the need to manage the Company's ability to repay existing liabilities as they fall due.

Directors' indemnities

Details on the Directors' indemnities in place are provided in the Directors' Remuneration Report.

Auditor information

Each of the Directors at the date of the approval of this report confirms that:

- (i) so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- (ii) the Director has taken all steps that he ought to have taken as Director to make himself aware of any relevant information and to establish that the Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

In accordance with Section 489 of the Companies Act 2006, an ordinary resolution to re-appoint Ernst & Young LLP as the Group's auditors will be put forward at the forthcoming Annual General Meeting.

By order of the Board



Brian Smith

For and on behalf of

PraxisIFM Fund Services (UK) Limited

Company Secretary

21 April 2020

Corporate Governance

Introduction

The Board of the Company has considered the Principles and Provisions of The AIC Code of Corporate Governance ("AIC Code"). The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code ("the UK Code"), as well as setting out additional Provisions on issues that are of specific relevance to the Company.

The Board considers that reporting against the Principles and Provisions of the AIC Code, which has been endorsed by the Financial Reporting Council ("FRC"), provides more relevant information to shareholders.

The Company has complied with the Principles and Provisions of the AIC Code.

The AIC Code is available on the AIC website (www.theaic.co.uk). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

The FRC, the UK's independent regulator for corporate reporting and governance responsible for The UK Corporate Governance Code, has endorsed the AIC Code. The terms of the FRC's endorsement mean that AIC members who report against the AIC Code and the AIC Guide fully meet their obligations under The UK Corporate Governance Code and the related disclosure requirements contained in the Listing Rules.

During the financial year ended 31 December 2019, the Group has complied with the recommendations of the AIC Code and the relevant provisions of The UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to:

- (i) the role of the chief executive;
- (ii) the appointment of a senior independent Director;
- (iii) executive Directors' remuneration; and
- (iv) the need for an internal audit function.

The Board considers that these provisions are not relevant to the size and position of the Company, being an externally managed investment company with no executive Directors; therefore the Company does not comply with these provisions.

The Board

At the date of this report, the Board consists of three non-executive Directors including the Chairman, two of whom are male and one female. All the Directors have served during the entire period since their appointment on 13 November 2016.

The Directors have a broad range of relevant experience to meet the Group's requirements and their biographies are given below:

Norman Crighton (Non-executive Chairman)

Norman is the Chairman of Weiss Korea Opportunity Fund and AVI Japan Opportunity Trust. Norman was, until May 2011, an Investment Manager at Metage Capital Limited where he was responsible for the management of a portfolio of closed-ended funds and has almost 30 years' experience in closed-ended funds having worked at Olliff and Partners, LCF Edmond de Rothschild, Merrill Lynch, Jefferies International Limited and latterly Metage Capital Limited. His experience in investment banking covers analysis and research as well as sales, market making, proprietary trading and corporate finance.

Guy Heald (Non-executive Director)

Guy has spent most of his career in banking, not only specialising in markets, but also in general management positions overseeing all aspects of banking, including lending. He worked in London, New York and Tokyo and has an extensive knowledge of companies needs for financing and managing interest rate, liquidity and foreign exchange risks. During his career he worked for Brown Shipley, Chemical Bank and HSBC where he held senior positions including Head of Global Markets and Chief Executive Officer at HSBC Japan. After leaving banking in 2003 he has served as an adviser, non-executive director and trustee of several charities as well as starting a number of successful family companies of his own. The SME market is of particular interest to Guy, specifically the challenges facing companies in their pursuit for growth, as he invests venture and growth capital himself.

Marlene Wood (Non-executive Director and Chair of the Audit Committee)

Marlene is a chartered accountant and currently non executive director and audit committee chair of GCP Student Living plc.

Marlene has 20 years' experience in the commercial property sector having been finance director for Miller Developments raising finance for major property transactions both in the UK and Europe. Her experience covers governance and risk management as well as financial oversight and debt raising.

Composition

The Board believes that during the year ended 31 December 2019 its composition was appropriate for an investment company of the Group's nature and size. All of the Directors are independent of the Investment Manager and are able to allocate sufficient time to the Group to discharge their responsibilities effectively.

Tenure

The Board recognises the benefits to the Company of having longer serving Directors together with progressive refreshment of the Board. The Board does not believe that length of service in itself necessarily disqualifies a Director from seeking reappointment but, when making a recommendation, the Board will take into account the requirements of the AIC Code. The Board has adopted corporate governance best practice and has a succession plan in place. All Directors must stand for annual reappointment. No Director of the Company has served for nine years or more and all directors remain independent of the Company's Investment Manager.

In accordance with the Company's Articles of Association, at each Annual General Meeting, every Director shall retire from office and offer themselves for re-election. Resolutions for the re-election of each Director will be proposed as ordinary resolutions at the Annual General Meeting of the Company to be held on 27 May 2020.

The Directors have appointment letters which do not provide for any specific term. Copies of the Directors' appointment letters are available on request from the Company Secretary. Upon joining the Board, any new Directors receive an induction and relevant training is available to Directors on an ongoing basis.

The Directors, in order to fulfil their duties, are able to take independent professional advice at the expense of the Company. A policy of insurance against Directors' and officers' liabilities is maintained by the Company.

Board committees

The Company has established an Audit and Management Engagement Committee ("Committee") which is chaired by Marlene Wood and consists of all the Directors. A report of the Audit and Management Engagement Committee is included in this Annual Report on page 32.

The Company has not established a nomination committee or a remuneration committee because all of the Directors are independent non-executive directors of the Company. Therefore the Board as a whole will consider any further Director appointments, remuneration, length of service and any other relevant matters.

The Audit and Management Engagement Committee meets at least twice a year or more often if required. The Audit and Management Engagement Committee's principal duties are to consider the appointment, independence, objectivity, and remuneration of the auditor and to review the annual accounts and half-yearly financial report. The Committee also examines the effectiveness of the Company's risk management and internal control systems and receives information from the AIFM and the Portfolio Manager. In addition the terms of the appointment of the Investment Manager are annually reviewed as well as, the Investment Manager's performance and the terms of the Investment Management and AIFM Agreements. The Committee also reviews the continued appointment and performance of the Company's other service providers.

Corporate Governance

continued

Meeting attendance

The actual number of formal meetings of the Board and Committee during the year under review is given below, together with individual Director's attendance at those meetings.

	Quarterly Board	Audit and Management Engagement Committee
Number held	4	4
Norman Crighton	4	4
Guy Heald	4	4
Marlene Wood	4	4

There were also a number of other Board and committee meetings to deal with administrative matters and approval of documentation.

Division of responsibilities

The following sets out the division of responsibilities between the Chair, Board and the Committee Chair.

Role of the Chairman

- Leadership to the Board;
- Ensure the Board are provided with sufficient information in order to ensure they are able to discharge their duties;
- Ensure each Board member's views are considered and appropriate action taken;
- Ensure that each Committee has the support required to fulfil their duties;
- Engage the Board in assessing and improving its performance;
- Oversee the induction and development of directors;
- Support the Investment Manager and other service providers;
- Seek regular engagement with major shareholders in order to understand their views on governance and performance against the company's investment objective and investment policy;
- Ensure the Board as a whole has a clear understanding of the views of shareholders;
- Ensure regular engagement with each service provider; and
- Keep up to date with key developments.

Role of Audit and Management Engagement Committee Chair

- Ensure appropriate papers are considered at the meeting;
- Ensure committee members views and opinions are appropriately considered;
- Seek engagement with shareholders on significant matters related to their areas of responsibility; and
- Maintain relationships with advisers; and
- Consider appointing independent professional advice where deemed appropriate.

Role of the Board

- Review the Board pack ahead of the meeting;
- Provide appropriate opinion, advice and guidance to the Chairman and fellow board members;
- Support the Board, Chairman and service providers in fulfilling their role;
- Provide appropriate support at the Annual General Meeting.

Board diversity

The Group's policy is that the Board should have an appropriate level of diversity in the boardroom, taking into account relevant skills, gender, social and ethnic backgrounds, cognitive and personal strengths. Consideration is given to the recommendations of the AIC Code and the Group supports the recommendations of the Hampton-Alexander Review. The Board currently comprises one female and two male Directors.

Performance appraisal

A formal annual performance appraisal process is performed on the Board, the Chairman, the Audit and Management Engagement Committee, the Investment Manager and the Group's main service providers.

A programme consisting of open and closed ended questions was used as the basis for the appraisal. The results were reviewed by the Chairman and discussed with the Board. A separate appraisal of the Chairman was carried out by the other members of the Board and the results reported back to the Chairman by the Chair of the Audit and Management Engagement Committee. The results of the performance evaluation were positive and demonstrated that the Directors showed the necessary commitment for the effective fulfilment of their duties.

Internal control

Prior to the Group's listing a detailed review was carried out on the financial position, prospects and procedures applicable to the Group.

The AIC Code requires the Board to review the effectiveness of the Group's system of internal controls. The Board recognises its ultimate responsibility for the Group's system of internal controls and for monitoring its effectiveness. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can provide only reasonable assurance against material misstatement or loss. The Board has undertaken a review of the aspects covered by the guidance and has identified risk management controls in the key areas of business objectives, accounting, compliance, operations and secretarial as being matters of particular importance upon which it requires reports. The Board believes that the existing arrangements, set out below, represent an appropriate framework to meet the internal control requirements. Through these procedures the Directors have kept under review the effectiveness of the internal control system throughout the year up to the date of this report. The system in place accords with The FRC's 2014 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

Financial aspects of internal control

The Directors are responsible for the internal financial control systems of the Group and for reviewing their effectiveness. These aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and which is used for publication and that the assets of the Group are safeguarded. As stated above, the Board has contractually delegated to external agencies the services the Group requires and the Board monitors the internal control framework established by the Investment Manager, the AIFM, the Administrator and the Group's Custodian to provide reasonable assurance on the effectiveness of internal financial controls.

These key procedures include review of management accounts and Net Asset Value and monitoring of performance at quarterly Board meetings, valuation of loans by an independent valuer, segregation of the administrative function from that of cash, custody and investment management, maintenance of appropriate insurance and adherence to physical and computer security procedures. In addition, robust procedures have been put in place for authorisation of all expense payments.

The Statement of Directors' Responsibilities in respect of the consolidated financial statements is on page 34 and a Statement of Going Concern is on page 23. The Report of the Independent Auditor is on pages 35 to 43.

Corporate Governance

continued

Other aspects of internal control

The Board holds quarterly meetings, plus additional meetings as required. Between these meetings there is regular contact with the Investment Manager, the Company Secretary and the Administrator.

The Board has agreed policies with the Investment Manager on key operational issues. The Investment Manager and/or AIFM report in writing to the Board on all operational and compliance issues.

The Directors review management accounts from the Administrator, including holdings in the portfolio, transactions and other aspects of the financial position of the Group. Additional ad hoc reports are received as required and Directors have access at all times to the advice and services of the Corporate Company Secretary, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

This contact with the Investment Manager and the other key service providers enables the Board to monitor the Group's progress towards its objectives and encompasses an analysis of the risks involved. The effectiveness of the Group's risk management and internal controls systems is monitored and a formal review, utilising a detailed risk assessment programme has been completed. This included consideration of the Administrator's and the Registrar's internal controls report. There are no significant findings to report from the review.

Principal risks

The Directors confirm that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks and how they are being managed is set out in the Strategic Report on pages 11 to 13.

Shareholder relations

The Company seeks to provide a minimum of twenty working days' notice of the Annual General Meeting. The Notice of Meeting sets out the business of the AGM and any item not of an entirely routine nature is explained in the Directors' Report. Separate resolutions are proposed for each substantive issue. The Investment Manager has a programme of meetings with Shareholders and reports back to the Board on its findings. The Chairman and the Board welcome direct feedback from Shareholders.

Exercise of voting powers and stewardship code

The Group and the Investment Manager support the UK Stewardship Code issued by the Financial Reporting Council, but the UK Stewardship Code has limited applicability to the Group's circumstances as the Group holds loan investments.

Environmental, social and governance ("ESG") policy

The Group premises, manufacturing or other operations. The Investment Manager incorporates ESG issues into its analysis and decision-making processes.

Directors' Remuneration Report

This report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. An Ordinary resolution for the approval of this report will be put forward at the forthcoming Annual General Meeting.

The Directors' Remuneration Report is put forward for approval by Shareholders on an annual basis. The result of the Shareholder resolution on the Remuneration Report is non-binding on the Company, although it gives Shareholders an opportunity to express their views, which will be taken into account by the Board.

The law requires the Group's auditor to audit certain areas of the disclosures provided. Where disclosures are audited they are indicated as such. The auditor's opinion is on page 35.

Remuneration

The Company currently has three non-executive Directors.

As detailed in the Company's prospectus dated 12 March 2018, Directors' fees are payable at the rate of £30,000 per annum for each Director other than the Chairman, who is entitled to receive £36,000. The Chairman of the Audit and Management Engagement Committee is entitled to additional fees of £3,000 per annum.

The Board believes that these fees appropriately reflect prevailing market rates for an investment trust of the Company's complexity and size and will also enable the Company to attract appropriately experienced additional Directors in the future.

The Board reviews the fees payable to the Directors on an annual basis.

Directors' service contracts

The Directors do not have service contracts with the Company and are not entitled to compensation on loss of office. The Directors have appointment letters which do not provide for any specific term. However, they are subject to re-election by Shareholders on an annual basis.

Directors' indemnities

Subject to the provisions of the Companies Act, but without prejudice to any indemnity to which a Director might otherwise be entitled, every past or present Director or officer of the Company (except the auditors) may, at the discretion of the Board, be indemnified out of the assets of the Group against all costs, charges, losses, damages and liabilities incurred by him for negligence, default, breach of duty, breach of trust or otherwise in relation or connection to the affairs or activities of the Group.

In addition the Board has purchased and maintains insurance at the expense of the Group for the benefit of such persons indemnifying them against any liability or expenditure incurred by them for acts or omissions as a Director or officer of the Group.

Director search and selection fees

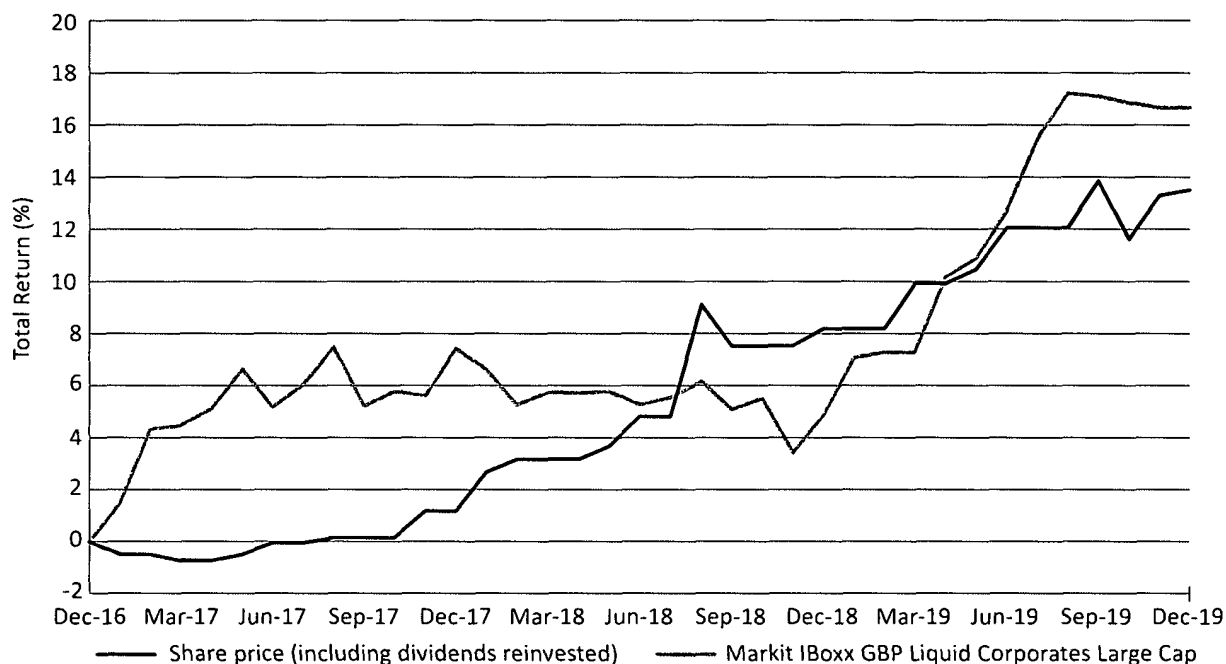
No Director search and selection fees were incurred in the year ended 31 December 2019.

Directors' Remuneration Report

continued

Performance

The following chart shows the performance of the Company's share price on a total return basis.



Directors' emoluments for the year ended 31 December 2019 (Audited)

The Directors who served during the year received the following remuneration for qualifying services.

	Fees for the year ended 31 December 2019 £'000	Fees for the year ended 31 December 2018 £'000
Norman Crighton	36	36
Marlene Wood	33	33
Guy Heald	30	30

There are no other taxable benefits payable by the Group other than certain expenses, which may be deemed to be taxable. None of the above fees were paid to third parties.

A non-binding ordinary resolution to approve the Directors' Remuneration Implementation Report contained in the Annual Report for the year ended 31 December 2018 was put forward at the Annual General Meeting held on 1 May 2019. The resolution was passed with 100% of the proxy votes cast (including discretionary votes) being in favour of the resolution.

A non-binding ordinary resolution to approve the Directors' Remuneration Report contained in the Annual Report for the year ended 31 December 2019 will be put forward for approval at the Company's Annual General Meeting to be held on 27 May 2020.

The Directors' Remuneration Policy was last put forward at the Annual General Meeting held on 19 April 2018. The resolution was passed with 100% of the proxy votes cast (including discretionary votes) being in favour of the resolution. The Directors' Remuneration Policy will next be put forward for approval at the Annual General Meeting to be held in May 2021.

Relative importance of spend on pay

The following table sets out the total level of Directors' remuneration compared to the distributions to Shareholders by way of dividends and share buybacks, and the management fees and other expenses incurred by the Group.

	2019 £'000	2018 £'000	Change £'000
Income	12,541	8,199	4,342
Directors' fees	99	99	–
Management fees and other expenses	2,287	2,028	259
Dividends paid and payable to Shareholders	8,224	6,036	

Directors' holdings

The Directors had the following shareholdings at 31 December 2019 and as at the date of this report, all of which are beneficially owned.

	Ordinary Shares as at 31 December 2019	Ordinary Shares as at date of this report	Ordinary Shares as at 31 December 2018
Norman Crighton	30,030	30,030	30,030
Guy Heald	20,000	20,000	20,000
Marlene Wood	20,000	20,000	20,000

Statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that the above Report on the Remuneration Policy and Remuneration Report summarises, as applicable, for the financial year ended 31 December 2019:

- (a) the major decisions on Directors' remuneration;
- (b) any substantial changes relating to Directors' remuneration made during the financial year ended 31 December 2019; and
- (c) the context in which the changes occurred and decisions have been taken.



Norman Crighton
Chairman

21 April 2020

Report of the Audit and Management Engagement Committee

Role of the Audit and Management Engagement Committee

The AIC Code of Corporate Governance recommends that Boards should establish audit committees consisting of at least three, or in the case of smaller companies, two independent non-executive directors. The Board is required to satisfy itself that at least one member of the audit committee has recent and relevant financial experience and the Committee as a whole has experience and knowledge relevant to the sector. The main role and responsibilities of the audit committee should be set out in written terms of reference covering certain matters described in the Code. The Company complies with the Code and the terms of reference of the Audit and Management Engagement Committee are available on the Company's website.

The Audit and Management Engagement Committee meets formally at least twice a year for the purpose, amongst other things, of considering the appointment, independence and objectivity, and remuneration of the auditor and to review the annual accounts and half-yearly financial report. The Audit and Management Engagement Committee also reviews the Company's internal financial controls and its internal control and risk management systems. In addition, the terms of the appointment of the Investment Manager are annually reviewed as well as, the Investment Manager's performance and the terms of the Investment Management and AIFM Agreements. The Committee also reviews the continued appointment and performance of the Company's other service providers.

Composition

The Audit and Management Engagement Committee has considered the need for an internal audit function and deemed that it is not appropriate given the nature and circumstances of the Company but keeps the needs for an internal audit function under periodic review.

In view of the size of the Board, all of the Directors of the Company are members of the Audit and Management Engagement Committee. The Audit and Management Engagement Committee has formal written terms of reference and copies of these are available on request from the Company Secretary. The Audit and Management Engagement Committee as a whole has recent and relevant financial experience. The Chairman of the Company is a member of the Audit and Management Engagement Committee. The Board and the Audit and Management Engagement Committee believe that this is appropriate as the Chairman has recent and relevant financial experience and is independent.

Meetings

There have been four Audit and Management Engagement Committee meetings in the year ended 31 December 2019. All Committee members attended these meetings.

Financial statements and significant accounting matters

The Audit and Management Engagement Committee considered the following significant accounting issues in relation to the Group's Consolidated Financial Statements for the year ended 31 December 2019:

Valuation and existence of bonds and private loan investments

The Group holds assets in bonds and private loan investments. The valuation and existence of these bonds and private loan investments are the most material matter in the production of the financial statements. The bonds and private loan investments are valued by an independent valuer and the valuations at year end were agreed to the valuer's report. The valuation process has been comprehensively reviewed during the year, and is monitored, by the Board, the Manager and the AIFM. The process includes quantitative and qualitative analysis, with the analysis performed on a loan-by-loan basis and the valuation of each loan taking into account the relevant risks and returns associated with that loan. The Audit and Management Engagement Committee has reviews valuation reports and also the procedures in place for ensuring accurate valuation and existence of investments and recommended these to the Board for review and approval.

Valuation of ZDP Shares and Inter company loan

The Audit and Management Engagement Committee reviewed the methodology to account for financial instruments recognised at amortised cost.

Recognition of income

Income may not be accrued in the correct period. The Audit and Management Engagement Committee reviewed the Administrator's procedures for recognition of income and is comfortable that these are appropriate. The Audit and Management Engagement Committee has reviewed the internal controls report of the Group's Administrator, which includes controls in relation to the recognition of income. The Audit and Management Engagement Committee also reviews investment yields on the quarterly investment manager report for variations and significant movements.

Going concern and viability statements

Having reviewed the Company's financial position, liabilities principal risks and uncertainties, the Audit and Management Engagement Committee recommended to the Directors that it was appropriate for the Directors to prepare the financial statements on the going concern basis.

The Going concern assessment and viability statements can be found on pages 13 and 23.

Conclusion with respect to the Annual Report and financial statements

The Audit and Management Engagement Committee has concluded that the consolidated financial statements for the year ended 31 December 2019, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's business model, strategy and performance. The Audit and Management Engagement Committee has reported its conclusions to the Board of Directors. The Audit and Management Engagement Committee reached this conclusion through a process of review of the document and enquiries to the various parties involved in the production of the annual report.

Audit tenure

Ernst & Young LLP was selected as the Group's auditor at the time of the Group's launch following a competitive process and review of the Auditor's credentials. The appointment of the external auditor is reviewed annually by the Audit and Management Engagement Committee and the Board and is subject to approval by Shareholders. In accordance with the FRC guidance, the audit will be put out to tender within ten years of the initial appointment of Ernst & Young LLP in November 2017.

Effectiveness of external audit

The Audit and Management Engagement Committee is responsible for reviewing the effectiveness of the external audit process. The Audit and Management Engagement Committee received a presentation of the audit plan from the external auditor prior to the commencement of the audit and a presentation of the results of the audit following completion of the main audit testing. The Audit and Management Engagement Committee performed a review of the external auditor following the presentation of the results of the audit. The review included a discussion of the audit process and the ability of the external auditor to fulfil its role. Following the above review, the Audit and Management Engagement Committee has agreed that the re-appointment of the Auditors should be recommended to the Board and the Shareholders of the Company.

Provision of non-audit services

The Audit and Management Engagement Committee has put a policy in place on the supply of any non-audit services provided by the external auditor. Such services are considered on a case-by-case basis and may only be provided to the Group if the provision of such services is at a reasonable and competitive cost and does not constitute a conflict of interest or potential conflict of interest which would prevent the auditor from remaining objective and independent.

No non-audit fees were payable to the Auditor in the year ended 31 December 2019.

Marlene Wood

Audit and Management Engagement Committee Chair

21 April 2020

Statement of Directors' Responsibilities

The Directors are responsible for preparing the consolidated financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare accounts for each financial year. Under that law, the Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and applicable law. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group as at the end of the year and of the net return for In preparing these accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates, which are reasonable and prudent;
- present information including accounting policies and additional disclosures as required to ensure the report is presented in a manner that provides relevant, reliable, comparable and understandable information;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accounts are published on the Group's website at <https://rmdl.co.uk/> which is maintained by the Group's Investment Manager. The work carried out by the auditors does not involve consideration of the maintenance and integrity of these websites and, accordingly, the auditors accept no responsibility for the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmation statement

The Directors each confirm to the best of their knowledge that:

- (a) the accounts, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- (b) this Annual Report includes a fair review of the development and performance of the business and position of the Group, together with a description of the principal risks and uncertainties that it faces.

The Directors consider that the consolidated financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group's performance, business model and strategy.

For and on behalf of the Board



Norman Crighton
Director

21 April 2020

Independent Auditor's Report

to the Members of RM Secured Direct Lending PLC

Opinion

In our opinion:

- the group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's and the parent company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRS as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

Group	Parent company
Consolidated Statement of Financial Position as at 31 December 2019	Statement of Financial Position as at 31 December 2019
Consolidated Statement of Comprehensive Income	Statement of Comprehensive Income
Consolidated Statement of Changes in Equity	Statement of Changes in Equity
Consolidated Statement of Cash Flows	Statement of Cash Flows
Related notes 1 to 22 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 22 to the financial statements including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 11 to 13 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 34 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 23 in the annual report about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 13 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independent Auditor's Report

continued

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> • Risk that the going concern assumption is incorrectly applied • Risk of incorrect valuation and/or defective title to the investment portfolio • Risk of incomplete and/or inaccurate recognition of revenue from the investment portfolio • Risk of incorrect accounting for financial instruments recognised at amortised cost
Materiality	• Overall materiality of £1.20m which represents 1% of equity shareholders' funds

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 and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Risk that the going concern assumption is incorrectly applied</p> <p>(as described on page 33 in the Report of the Audit Committee and as per the accounting policy set out on page 54).</p> <p>The Directors are required to determine the appropriateness of preparing the financial statements on a going concern basis. In doing so, they are obliged to consider the ability of the Group and Parent Company to meet financial obligations as they fall due for a period of at least twelve months from the date of approval of the financial statements.</p> <p>They are also required to assess the adequacy of the going concern disclosures in the annual report and financial statements.</p> <p>The Group and Parent has total liabilities on the balance sheet of £22.3m which includes the £11.54m ZDP liability. In addition, the Parent Company prospectus refers to a redemption opportunity for investors which will be exercised by the Company's fourth AGM which will be held in 2021.</p> <p>The outbreak of Covid-19 and the resulting financial and economic market uncertainty could have a significant and adverse impact on the performance of the Group, which could potentially lead to the improper application of the Director's going concern assumption.</p>	<p>We performed the following procedures:</p> <p>We ascertained that the going concern assessment covers a period of at least twelve months from the date of approval of the financial statements.</p> <p>We reviewed the cash flow and revenue forecast which support the Directors' assessment of going concern. We challenged the sensitivities and assumptions used in the forecasts.</p> <p>We held discussions with the Audit Committee and Investment Manager to determine whether, in their opinion, there is any material uncertainty regarding future cashflows and the Company's ability to pay liabilities and commitments as they fall due.</p> <p>We assessed the Group's ability to repay the zero dividend preference shareholders in April 2021. Our considerations included a review of the parent company financial position, its ability to repay the loan due to the subsidiary and provide other funding in the form of capital contributions as required. We assessed the terms of the prospectus and considered the level of flexibility afforded to the Directors in structuring how the redemption opportunity will be operated.</p> <p>We considered whether the directors' assessment of going concern as included in the Annual Report is appropriate and consistent with the disclosure in the viability statement. This included a review of the assessment and disclosures regarding the impact of Covid-19 on the Group and Parent Company and the associated uncertainty</p>	<p>The results of our procedures are:</p> <p>We have no significant issues to communicate with respect to our procedures performed over the risk that the going concern assumptions is incorrectly applied or inappropriately disclosed.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	We reviewed and challenged the Group's Covid-19 impact assessment. This assessment included a review of the cash flow forecasts, sensitivity models and the Investment Manager's review of the portfolio.	
<p>Risk of incorrect valuation and/or defective title to the investment portfolio</p> <p>(as described on page 32 in the Report of the Audit Committee and as per the accounting policy set out on page 56).</p> <p>The valuation of the investment portfolio at 31 December 2019 was £131.2m (2018: £102.58m) consisting primarily of unquoted private loan investments.</p> <p>The valuation of the assets held in the investment portfolio is the key driver of the Group and Parent Company's net asset value and total return. Incorrect investment pricing, or a failure to maintain proper legal title of the investments held by the Group and Parent Company could have a significant impact on the portfolio valuation and the return generated for shareholders.</p> <p>Private loans and bonds are recognised at fair value through profit and loss.</p>	<p>We performed the following procedures:</p> <p>We obtained an understanding of the Administrator's processes and controls surrounding investment valuation by reviewing their internal controls report and performing our walkthrough procedures with the Investment Manager, Independent Valuer and Administrator in order to evaluate the design and implementation of controls.</p> <p>We agreed the value of all investments held at the year-end per the accounting records to the valuation report prepared by the independent valuer.</p> <p>We agreed the prices of the quoted portfolio to independent market sources, where available.</p> <p>We engaged our valuation specialists to perform a detailed quantitative and qualitative review of a sample of unquoted private loans issued directly by the Parent Company to ensure the valuation was within an expected range.</p> <p>We assessed the independent valuers' valuation methodology and reviewed the loan valuation report for any anomalies.</p> <p>We ensured the financial statements contain adequate disclosures regarding the valuation of investments, including those disclosures required under IFRS 13 'Fair Value Measurement'.</p> <p>We agreed the Parent Company's investments to independent confirmations received from the Parent Company's Custodian, Lawyer and/or Borrower as at 31 December 2019.</p>	<p>The results of our procedures are:</p> <p>We have no material issues to communicate with respect to our procedures performed over the risk of incorrect valuation and defective title to the investment portfolio.</p> <p>We have no issues to communicate in relation to the post balance sheet disclosure included at note 22.</p>

Independent Auditor's Report

continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	<p>We reviewed the quoted portfolio for stale prices and reviewed the depth of broker quotes as at the year end to assess liquidity. We reviewed the quoted portfolio for indicators that investments were distressed by comparing Par value and the traded price.</p> <p>We assessed the impact of COVID-19 on the valuation of the Company's portfolio and considered the nature of this post balance sheet event as disclosed in the financial statements.</p> <p>We reviewed the disclosure included in Note 22 to the Financial Statements to ensure that the events occurring after the year end had been appropriately considered and disclosed.</p>	
<p>Risk of incomplete and/or inaccurate revenue recognition from the investment portfolio</p> <p>(per the Audit Committee report set out on page 32 and the accounting policy set out on page 55).</p> <p>The income received for the year to 31 December 2019 was £12.54m (2018: £8.2m), consisting primarily of interest income from the investment portfolio.</p> <p>The income receivable during the year directly affects the Parent Company's revenue return and in turn, the dividend that must be paid. There is a risk of incomplete or inaccurate recognition of income through the failure to recognise proper income entitlements or applying appropriate accounting treatment..</p>	<p>We have performed the following procedures:</p> <p>We obtained an understanding of the Administrator's processes and controls surrounding revenue recognition by reviewing their internal controls report and performing our walkthrough procedures with the Investment Manager and Administrator to evaluate the design and implementation of controls.</p> <p>We agreed the recognition and accounting treatment of a sample of interest income from the income report to the coupon terms or loan agreements. We recalculated the interest amount using exchange rates obtained from an independent data vendor and confirmed that the cash received as shown on bank statements was consistent with the recalculated amount.</p> <p>We agreed a sample of interest payments from coupon terms available from an independent data vendor or loan agreements to the income recorded by the Parent Company to test completeness of the income recorded.</p>	<p>The results of our procedures are:</p> <p>We have no material issues to communicate with respect to our procedures performed over the risk of incomplete and/or inaccurate revenue recognition from the investment portfolio.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	<p>We agreed a sample of interest accrued at the year end and recalculated the accrual. We agreed the interest rates and payment dates to the loan documentation or coupon terms, agreed the principal outstanding and recalculated the interest receivable. We confirmed this was consistent with cash received as shown on post year end bank statements, where paid.</p> <p>We reviewed a sample of arrangement fees recognised, by recalculating the amount recognised with reference to the loan agreement and the agreement between the trust and the Investment Manager.</p> <p>We agreed the recognition and accounting treatment of a sample of early redemption fees by recalculating the amount recognised with reference to terms in the loan agreement.</p>	
<p>Incorrect accounting for financial instruments recognised at amortised cost</p> <p>(as described on page 32 in the Report of the Audit Committee and as per the accounting policy set out on page 55).</p> <p>A loan agreement was entered into between the Parent Company and its subsidiary, RM ZDP PLC. RM ZDP PLC lent the Parent Company an amount of £10.87m, financed by the Gross proceeds of a Zero Dividend Preference (ZDP) share issue by RM ZDP PLC.</p> <p>The intercompany loan agreement states that interest shall accrue at a rate of 2% per annum. A deed of undertaking was entered into between RM ZDP PLC and the Parent Company stating that the Parent Company will finance any additional funding required to repay the ZDP Shares. The ZDP shares have a redemption yield of 3.5% per annum</p> <p>The zero dividend preference shares ('ZDPs') have a maturity date of 6 April 2021.</p> <p>The loan payable from the Parent Company at 31 December 2019 was held at amortised cost totalling £11.54m (2018: £11.16m.)</p>	<p>We performed the following procedures:</p> <p>We obtained an understanding of the Administrator's processes and controls surrounding the accounting for financial instruments recognised at amortised cost reviewing their internal controls report and performing our walkthrough procedures in order to evaluate the design and implementation of controls.</p> <p>We agreed the issue costs incurred when issuing ZDP shares to invoices and bank statements.</p> <p>We recalculated the amortisation of ZDP share issue costs and ensured these had been expensed to the Parent Company accounts in accordance with the Prospectus.</p> <p>We recalculated the finance costs recorded using the redemption yield associated to the ZDPs.</p> <p>We confirmed the number of ZDP shares in issue and recalculated the Fair Value with reference to independent market source and compared to the disclosures made in the financial statements.</p>	<p>The results of our procedures are:</p> <p>We have no material issues to communicate with respect to our procedures over financial instruments recognised at amortised cost.</p>

Independent Auditor's Report

continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The Zero Dividend Preference share liability at 31 December 2019 was held at amortised cost in the Group Statement of Financial Position totalling £11.54m (2018: £11.16m.)	<p>We reviewed the intercompany loan agreement and deed of undertaking to ensure that the terms were correctly accounted for and accurately disclosed.</p> <p>We reviewed the intercompany balances and consolidation adjustments made for the purposes of the Group financial statements in relation to the Subsidiary.</p>	

The risk that the going concern assumption is incorrectly applied has been added as a key audit matter in the audit opinion due to the increased focus on the ability to repay the ZDP liability in 2021 and the impact of Covid-19.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Group. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £1.20m (2018: £0.96m) which is 1% of equity shareholders' funds. We believe that equity shareholders' funds provides us with materiality aligned to the key measurement of the Group's performance.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2018: 75%) of our planning materiality, namely £0.90m (2018: £0.72m). We have set performance materiality at this percentage due to our experience of auditing the Group.

Given the importance of the distinction between revenue and capital for the Group, we have also applied a separate testing threshold for the revenue column of the Statement of Comprehensive Income of £0.49m (2018: £0.30m) being 5% of profit before tax.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.06m (2018: £0.05m) which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, including the Strategic Report, Governance Report and Shareholder information, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 34** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on pages 32 to 33** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 24** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Independent Auditor's Report

continued

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 34, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent 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 (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are IFRS, the Companies Act 2006, AIC SORP, the Listing Rules, the UK Corporate Governance Code, Miscellaneous Reporting Requirements and Section 1158 of the Companies Act 2010.
- We understood how the Group is complying with those frameworks through discussions with the Audit Committee and Company Secretary and review of the Company's documented policies and procedures.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified fraud risks with respect to the incomplete and/or inaccurate income recognition from the investment portfolio and incorrect valuation and defective title to the investment portfolio. Further discussion of our approach is set out in the section on key audit matters above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.

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

Other matters we are required to address

- Following the recommendation of the Audit Committee, we were appointed by the Parent Company to audit the financial statements of the Company for the year ending 31 December 2017 and subsequent financial periods and signed an engagement letter on 15 November 2017.
- The period of total uninterrupted engagement is 3 years, covering periods from our appointment through to the period ending 31 December 2019.
- Non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or Parent Company and we remain independent in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Group's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Group's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and Parent Company and the members as a body, for our audit work, for this report, or for the opinions we have formed.

Sue Dawe (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Edinburgh

21 April 2020

Notes:

1. The maintenance and integrity of the RM Secured Direct Lending plc web site is the responsibility of the directors; 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 web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Notes	Year ended 31 December 2019			Year ended 31 December 2018		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses on investments	3	–	(1,161)	(1,161)	–	(807)	(807)
Income	5	12,541	–	12,541	8,199	–	8,199
Investment management fee	6	(1,062)	–	(1,062)	(894)	–	(894)
Other expenses	7	(1,080)	(145)	(1,225)	(978)	(156)	(1,134)
Return before finance costs and taxation		10,399	(1,306)	9,093	6,327	(963)	5,364
Finance costs	8	(541)	–	(541)	(380)	(657)	(1,037)
Return on ordinary activities before taxation		9,858	(1,306)	8,552	5,947	(1,620)	4,327
Taxation	9	(42)	18	(24)	(37)	17	(20)
Return on ordinary activities after taxation		9,816	(1,288)	8,528	5,910	(1,603)	4,307
Return per Ordinary Share (pence)	16	8.85p	(1.16p)	7.69p	6.83p	(1.85p)	4.98p

The total column of this statement is the profit and loss account of the Group.

All the revenue and capital items in the above statement derive from continuing operations.

'Return on ordinary activities after taxation' is also the 'Total comprehensive income for the year'.

The notes on pages 53 to 75 form an integral part of these financial statements.

Company Statement of Comprehensive Income

For the year ended 31 December 2019

	Notes	Year ended 31 December 2019			Year ended 31 December 2018		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses on investments	3	–	(1,264)	(1,264)	–	(865)	(865)
Income	5	12,541	–	12,541	8,199	–	8,199
Investment management fee	6	(1,062)	–	(1,062)	(894)	–	(894)
Other expenses	7	(1,002)	(164)	(1,166)	(920)	(156)	(1,076)
Return before finance costs and taxation		10,477	(1,428)	9,049	6,385	(1,021)	5,364
Finance costs	8	(541)	–	(541)	(380)	(657)	(1,037)
Return on ordinary activities before taxation		9,936	(1,428)	8,508	6,005	(1,678)	4,327
Taxation	9	(15)	15	–	(17)	17	–
Return on ordinary activities after taxation		9,921	(1,413)	8,508	5,988	(1,661)	4,327
Return per Ordinary Share (pence)	16	8.94p	(1.27p)	7.67p	6.92p	(1.92p)	5.00p

The total column of this statement is the profit and loss account of the company.

All the revenue and capital items in the above statement derive from continuing operations.

'Return on ordinary activities after taxation' is also the 'Total comprehensive income for the year'.

The notes on pages 53 to 75 form an integral part of these financial statements.

Consolidated Statement of Financial Position

	Notes	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Fixed assets			
Investments at fair value through profit or loss	3	131,201	102,581
Current assets			
Receivables	10	2,266	2,602
Cash and cash equivalents		8,390	8,138
		10,656	10,740
Payables: amounts falling due within one year			
Payables	11	(10,788)	(6,446)
Net current (liabilities)/assets		(132)	4,294
Non-current liabilities			
Zero Dividend Preference Shares	12	(11,541)	(11,155)
Total assets less current liabilities		119,528	95,720
Net assets		119,528	95,720
Capital and reserves: equity			
Share capital	14	1,222	987
Share premium	15	70,146	47,351
Special reserve		48,304	48,304
Capital reserve		(3,874)	(2,586)
Revenue reserve		3,730	1,664
Total Shareholders' funds		119,528	95,720
NAV per share – Ordinary Shares (pence)	17	97.79p	96.96p

The financial statements of the Group were approved and authorised for issue by the Board of Directors on 21 April 2020 and signed on their behalf by:

Norman Crighton
Director

The notes on pages 53 to 75 form an integral part of these financial statements.

Company Statement of Financial Position

	Notes	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Fixed assets			
Investments at fair value through profit or loss	3	131,201	102,581
Investments in subsidiary	4	50	50
Current assets			
Receivables	10	2,210	2,543
Cash and cash equivalents		8,372	8,120
		10,582	10,663
Payables: amounts falling due within one year			
Payables	11	(10,764)	(6,399)
Net current (liabilities)/assets		(182)	4,264
Non-current liabilities			
Intercompany loan payable	13	(11,541)	(11,155)
Total assets less current liabilities		119,528	95,740
Net assets		119,528	95,740
Capital and reserves: equity			
Share capital	14	1,222	987
Share premium	15	70,146	47,351
Special reserve		48,304	48,304
Capital reserve		(4,057)	(2,644)
Revenue reserve		3,913	1,742
Total Shareholders' funds		119,528	95,740
NAV per share – Ordinary Shares (pence)	17	97.79p	96.98p

The financial statements of the Company were approved and authorised for issue by the Board of Directors on 21 April 2020 and signed on their behalf by:



Norman Crighton
Director

Registered in England and Wales with registered number 10449530.

The notes on pages 53 to 75 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Notes	Share capital £'000	Share premium £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at beginning of the year		987	47,351	48,304	(2,586)	1,664	95,720
Return on ordinary activities		–	–	–	(1,288)	9,816	8,528
Issue of shares	14	235	23,265	–	–	–	23,500
Ordinary share issue costs		–	(470)	–	–	–	(470)
Dividend paid	18	–	–	–	–	(7,750)	(7,750)
Balance as at 31 December 2019		1,222	70,146	48,304	(3,874)	3,730	119,528

For the year ended 31 December 2018

		Share capital £'000	Share premium £'000	Special reserve £'000	Capital reserves £'000	Revenue reserves £'000	Total £'000
Balance as at beginning of the year		573	6,845	48,502	(983)	1,332	56,269
Return on ordinary activities		–	–	–	(1,603)	5,910	4,307
C Share conversion to Ordinary shares		414	40,770	–	–	–	41,184
Ordinary shares issue cost		–	(264)	–	–	–	(264)
Dividend paid	18	–	–	(198)	–	(5,578)	(5,776)
Balance as at 31 December 2018		987	47,351	48,304	(2,586)	1,664	95,720

Distributable reserves comprise: the revenue reserve; capital reserves attributable to realised profits; and the special reserve.

Share capital represents the nominal value of shares that have been issued. The share premium includes any premiums received on the issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

The notes on pages 53 to 75 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2019

	Notes	Share capital £'000	Share premium £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at beginning of the year		987	47,351	48,304	(2,644)	1,742	95,740
Return on ordinary activities		–	–	–	(1,413)	9,921	8,508
Issue of shares	14	235	23,265	–	–	–	23,500
Ordinary share issue costs		–	(470)	–	–	–	(470)
Dividend paid	18	–	–	–	–	(7,750)	(7,750)
Balance as at 31 December 2019		1,222	70,146	48,304	(4,057)	3,913	119,528

For the year ended 31 December 2018

		Share capital £'000	Share premium £'000	Special reserve £'000	Capital reserves £'000	Revenue reserves £'000	Total £'000
Balance as at beginning of the year		573	6,845	48,502	(983)	1,332	56,269
Return on ordinary activities		–	–	–	(1,661)	5,988	4,327
C Share conversion to Ordinary shares		414	40,770	–	–	–	41,184
Ordinary shares issue cost		–	(264)	–	–	–	(264)
Dividend paid	18	–	–	(198)	–	(5,578)	(5,776)
Balance as at 31 December 2018		987	47,351	48,304	(2,644)	1,742	95,740

Distributable reserves comprise: the revenue reserve; capital reserves attributable to realised profits; and the special reserve.

Share capital represents the nominal value of shares that have been issued. The share premium includes any premiums received on the issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

The notes on pages 53 to 75 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Operating activities			
Return on ordinary activities before finance costs and taxation*		9,093	5,364
Adjustment for losses on investments		1,161	807
Increase in debtors		(1,189)	(1,533)
Increase in creditors		247	1,023
Net cash flow from operating activities		9,312	5,661
Investing activities			
Private loan repayments/bonds sales proceeds	3	56,450	60,111
Private loans issued/bonds purchases	3	(80,636)	(88,580)
Net cash flow used in investing activities		(24,186)	(28,469)
Financing activities			
Finance costs		(154)	(95)
Zero Dividend Preference Shares issue proceeds		–	10,870
Ordinary Share issue proceeds	14	23,500	–
Ordinary Share issue costs	14	(470)	–
C Share issue proceeds		–	11,329
C Share issue costs		–	(264)
ZDP Shares issue costs		–	(156)
Payments on forward currency contracts		–	(403)
Oaknorth loan facility drawdown		16,900	–
Oaknorth loan facility repaid		(16,900)	–
Equity dividends paid	18	(7,750)	(5,776)
Net cash flow from financing activities		15,126	15,505
Increase/(decrease) in cash		252	(7,303)
Opening balance at beginning of the year		8,138	15,441
Balance as at 31 December 2019		8,390	8,138

* Cash inflow from interest on investment holdings was £10,680,000 (2018: £7,295,000).

The notes on pages 53 to 75 form an integral part of these financial statements.

Company Statement of Cash Flows

For the year ended 31 December 2019

	Notes	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Operating activities			
Return on ordinary activities before finance costs and taxation*		9,049	5,364
Adjustment for losses on investments		1,239	865
Increase in debtors		(1,192)	(1,474)
Increase in creditors		216	938
Net cash flow from operating activities		9,312	5,693
Investing activities			
Private loan repayments/ bonds sales proceeds	3	56,450	60,111
Private loans issued/ bonds purchases	3	(80,636)	(88,580)
Purchase of investments		–	(50)
Net cash flow used in investing activities		(24,186)	(28,519)
Financing activities			
Finance costs		(154)	(95)
Zero Dividend Preference Shares issue proceeds		–	10,870
Ordinary Share issue proceeds	14	23,500	–
Ordinary Share issue costs	14	(470)	–
C Share issue proceeds		–	11,329
C Share issue costs		–	(264)
ZDP Shares issue costs		–	(156)
Payments on forward currency contracts		–	(403)
Oaknorth loan facility drawdown		16,900	–
Oaknorth loan facility repaid		(16,900)	–
Equity dividends paid	18	(7,750)	(5,776)
Net cash flow from financing activities		15,126	15,505
Increase/(decrease) in cash		252	(7,321)
Opening balance at beginning of the year		8,120	15,441
Balance as at 31 December 2019		8,372	8,120

* Cash inflow from interest on investment holdings was £10,680,000 (2018: £7,295,000).

The notes on pages 53 to 75 form an integral part of these financial statements.

Movement in Financial Liabilities-Group

	Year ended 31 December 2019		Year ended 31 December 2018		
	OakNorth facility £'000	ZDP Shares £'000	OakNorth facility £'000	C Shares £'000	ZDP Shares £'000
Balance as at beginning of the year	–	11,155	–	29,574	–
Facility drawdowns during the year	16,900	–	2,500	–	–
Facility interest payable	106	–	8	–	–
Facility and interest repayments during the year	(17,006)	–	(2,508)	–	–
Shares issued during the year	–	–	–	11,329	10,870
Share conversions during the year	–	–	–	(41,425)	–
Return on C Shares prior to conversion	–	–	–	522	–
Return on ZDP Shares during the year	–	386	–	–	285
Balance as at 31 December 2019	–	11,541	–	–	11,155

Movement in Financial Liabilities-Company

	Year ended 31 December 2019		Year ended 31 December 2018		
	OakNorth facility £'000	Intercompany loan £'000	OakNorth facility £'000	C Shares £'000	Intercompany loan £'000
Balance as at beginning of the year	–	11,155	–	29,574	–
Facility drawdowns during the year	16,900	–	2,500	–	–
Facility interest payable	106	–	8	–	–
Facility and interest repayments during the year	(17,006)	–	(2,508)	–	–
Shares issued during the year	–	–	–	11,329	10,870
Share conversions during the year	–	–	–	(41,425)	–
Intercompany loan proceeds	–	–	–	522	–
Return on C Shares prior to conversion	–	–	–	–	–
Intercompany finance cost	–	386	–	–	285
Balance as at 31 December 2018	–	11,541	–	–	11,155

Notes to the financial statements

1. General information

RM Secured Direct Lending plc (the "Company") was incorporated in England and Wales on 27 October 2016 with registered number 10449530, as a closed-ended investment company. The Company commenced its operations on 15 December 2016. The Company intends to carry on business as an investment trust within the meaning of Chapter 4 of Part 24 of the Corporation Tax Act 2010.

The consolidated financial information of the Company comprises that of the Company and its subsidiary RM ZDP Plc (together referred to as the "Group") for the year ended 31 December 2019. RM ZDP was incorporated in England and Wales on 21 February 2018, with registered number 11217952 as a public company limited by shares under the Companies Act.

The Company's investment objective is to generate attractive and regular dividends through investment in secured debt instruments of UK SMEs and mid-market corporates including any loan, promissory notes, lease, bond or preference share sourced or originated by the Investment Manager with a degree of inflation protection through index-linked return where appropriate.

The registered office is Mermaid House, 2 Puddle Dock, London, EC4V 3DB.

2. Accounting policies

The principal accounting policies followed by the Group and the Company are set out below:

(a) Basis of accounting

The financial statements have been prepared on a going concern basis in accordance with IFRS, which comprise standards and interpretations approved by the IASB and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASB that remain in effect and to the extent that they have been adopted by the European Union, and in accordance with Article 4 of the IAS Regulation and the Companies Act 2006 as applicable to companies using IFRS. The financial statements have been prepared on a historical cost basis, except for the measurement at fair value of investments.

The Board has determined by having regard to the currency of the Company's share capital and the predominant currency in which its shareholders operate, that sterling is the functional and reporting currency. Where presentational recommendations set out in the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" ("SORP"), issued in the UK by the AIC in October 2019, do not conflict with the requirements of IFRS, the directors have prepared the financial statements on a basis consistent with the recommendations of the SORP, in the belief that this will aid comparison with similar investment companies incorporated in the United Kingdom.

In accordance with the SORP, the Statement of Comprehensive Income has been analysed between a revenue return (dealing with items of a revenue nature) and a capital return (relating to items of a capital nature). Revenue returns include, but are not limited to, investment related income, operating expenses, income related finance costs and taxation (insofar as they are not allocated to capital). Net revenue returns are allocated via the revenue return to the Revenue reserve.

Capital returns include, but are not limited to, profits and losses on the disposal and the valuation of non-current investments, derivative instruments and on cash and borrowings, operating costs and finance costs (insofar as they are not allocated to revenue). Net capital returns are allocated via the capital return to Capital reserves.

Dividends on Ordinary Shares may be paid out of Revenue reserve, Capital reserve and Special reserve.

Notes to the financial statements

continued

2. Accounting policies continued

(b) Adoption of new IFRS standards

A number of new standards, amendments to standards and interpretations are effective for the annual periods beginning after 1 January 2019. None of these are expected to have a significant effect on the measurement of the amounts recognised in the financial statements of the Group.

IFRS 16 – Leases (effective 1 January 2019) specifies accounting for leases and removes the distinction between operating and finance leases. This standard is not applicable to the Group as it has no leases.

IFRIC 23 – Uncertainty over Income Tax Treatments seeks to provide clarity on how to account for uncertainty over income tax treatments and specifies that an entity must consider whether it is probable that the relevant tax authority will accept each tax treatment or group of tax treatments, that it plans to use in its income tax filing. The interpretation also requires companies to reassess the judgements and estimates applied if facts and circumstances change. The interpretation would require the Group to recognise uncertain tax positions which are more than probable within its financial statements. The interpretation is unlikely to have any impact on the financial statements of the Group given its status as an investment trust with no significant tax liabilities.

A number of new standards, amendments to standards and interpretations are not effective for the annual periods beginning after 1 January 2019 and have not been applied in preparing these financial statements and not expected to have a significant effect on the financial statements of the Group.

(c) Basis of consolidation

The consolidated financial statements comprise the financial information of the Group as at the year end date. A Subsidiary is an entity over which the Company has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The financial information of the subsidiary is included in the consolidated financial statements from the date that control commences until the date that control ceases. Accounting policies of the subsidiary are consistent with the policies adopted by the Company. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(d) Going concern

The Directors have adopted the going concern basis in preparing the financial statements. The Directors have a reasonable expectation that the Group has adequate operational resources to continue in operational existence for at least twelve months from the date of approval of these financial statements.

(e) Investment entity status

The Company meets the criteria within IFRS 10 as an investment entity and should therefore hold investments in subsidiaries at fair value rather than consolidate them, unless those subsidiaries are not themselves investment entities and their main purpose is to provide services related to the group's investment activities. The Group's subsidiary, RM ZDP is not an investment entity and its main purpose is to provide finance for the group through the issue of zero dividend preference shares and therefore this subsidiary has been consolidated.

(f) Investments

Investments consist of private loans and bonds, which are classified as fair value through profit or loss as they are included in a group of financial assets that are managed and their performance evaluated on a fair value basis. They are initially and subsequently measured at fair value and gains and losses are attributed to the capital column of the Statement of Comprehensive Income. Investments are recognised on the date that the Group becomes a party to the contractual provisions of the instrument and are derecognised when their term expires, or on the date they are sold, repaid or transferred.

(g) Foreign currency

Transactions denominated in foreign currencies are translated into sterling at actual exchange rates as at the date of the transaction. Monetary assets and liabilities and non-monetary assets held at fair value denominated in foreign currencies are translated into sterling using London closing foreign exchange rates at the year end. Any gain or loss arising from a change in exchange rates is included as an exchange gain or loss to capital or revenue in the Statement of Comprehensive Income as appropriate. Foreign exchange movements on investments are included in the Statement of Comprehensive Income within loss on investments.

(h) Income

Interest income is recognised in the revenue column of the Statement of Comprehensive Income on a time-apportioned basis.

All other income including deposit interest are accounted on an accrual basis and early settlement fees received are recognised upon the early repayment of the loan.

Arrangement fees earned on private loan investments are recognised as an income over the term of the private loans.

(i) Capital reserves

Realised and unrealised gains and losses on the Group's investments are recognised in the capital column of the Statement of Comprehensive Income and allocated to the capital reserve.

(j) Expenses

All expenses are accounted for on an accruals basis.

Other expenses are recognised in the revenue column of the Statement of Comprehensive Income, unless they are incurred in order to enhance or maintain capital profits.

Management fees and finance costs

The Group is expecting to derive its returns predominantly from interest income. Therefore, the Board has adopted a policy of allocating all management fees and finance costs to the revenue column of the Statement of Comprehensive Income.

ZDP Shares finance cost

The ZDP Shares are designed to provide a pre-determined capital growth from their original issue price of 100p on 3 April 2018 to a final capital entitlement of 110.91p on 6 April 2021, on which date the RM ZDP is planned to be wound up. The provision for the capital growth entitlement of the ZDP Shares is included as a finance cost and charged to revenue within the Statement of Comprehensive Income.

(k) Taxation

The charge for taxation is based upon the net revenue for the year. The tax charge is allocated to the revenue and capital columns of the Statement of Comprehensive Income according to the marginal basis whereby revenue expenses are first matched against taxable income arising in the revenue account.

Deferred taxation will be recognised as an asset or a liability if transactions have occurred at the initial reporting date that give rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future. An asset will not be recognised to the extent that the transfer of economic benefit is uncertain.

(l) Financial liabilities

Bank loans and overdrafts are initially recorded at the proceeds received net of direct issue costs and subsequently measured at amortised cost using the effective interest rate. C shares are treated as debt on issue and reclassified as equity upon conversion to the Company's Ordinary Shares. The associated costs of issuing C shares are treated as capital and amortised over the period between issue and conversion of C shares.

Financial liabilities at amortised cost – Zero Dividend Preference Shares

These are initially recognised at cost, being the fair value of the consideration received associated with the borrowing net of direct issue costs. ZDP Shares are subsequently measured at amortised cost using the effective interest method. Direct issue costs are amortised using the effective interest method and are added to the carrying amount of the ZDP Shares. The final capital entitlement to ZDP share holders will rank in priority to the capital entitlement of the Ordinary Shares of RM ZDP as such ZDP Shares are treated as debt.

(m) Dividends

Interim dividends to the holders of shares are recorded in the Statement of Changes in Equity on the date that they are paid. Final dividends are recorded in the Statement of Changes in Equity when they are approved by Shareholders.

Notes to the financial statements

continued

2. Accounting policies continued

(n) Judgements, estimates and assumptions

The preparation of financial statements requires the directors to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions, the Group's actual results may ultimately differ from those estimates, possibly significantly.

The Group recognises loan investments at fair value through profit or loss and disclosed in note 3 to the financial statements. The significant assumptions made at the point of valuation of loans are the discounted cash flow analysis and/or benchmarked discount/interest rates, which are deemed appropriate to reflect the risk of the underlying loan. These assumptions are monitored to ensure their ongoing appropriateness. The sensitivity impact on the measurement of fair value of loan investments due to price is discussed in note 21.

(o) Investments in subsidiary

The investments in subsidiary company is included in the Company's Statement of Financial Position at cost less provision for impairment.

3. Investment at fair value through profit or loss

Group

(a) Summary of valuation

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Financial assets held:		
Bond investments	6,322	10,023
Private loan investments	124,879	92,558
	131,201	102,581

(b) Movements

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Opening valuation	102,581	76,957
Opening losses on investments	438	155
Book cost at the beginning of the year	103,019	77,112
Private loans issued/bonds purchases at cost	84,785	86,417
Purchase in kind interest (PIK)	1,244	–
Sales:		
– Private loans repayments/bonds sales proceeds	(55,511)	(60,111)
– gains/(losses) on investment	698	(399)
– Purchase in kind interest (PIK)	(115)	–
Unrealised losses on investments held	(2,919)	(438)
Closing valuation at year end	131,201	102,581
Book cost at end of the year	134,120	103,019
Unrealised losses on investment holdings at the year end	(2,919)	(438)
Closing valuation at year end	131,201	102,581

(c) Losses on investments

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Realised gains/(losses) on investments	698	(399)
Unrealised losses on investments held	(2,481)	(283)
Foreign exchange gains/(losses)	622	(125)
Total losses on investments	(1,161)	(807)

Notes to the financial statements

continued

3. Investment at fair value through profit or loss continued

Company

(a) Summary of valuation

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Financial assets held:		
Bond investments	6,322	10,023
Private loan investments	124,879	92,558
	131,201	102,581

(b) Movements

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Opening valuation	102,581	76,957
Opening losses on investments	438	155
Book cost at the beginning of the year	103,019	77,112
Private loans issued/bonds purchases at cost	84,785	86,417
Purchase in kind interest (PIK)	1,244	–
Sales:		
– Private loans repayments/bonds sales proceeds	(55,408)	(60,111)
– gains/(losses) on investment	595	(399)
– Purchase in kind interest (PIK)	(115)	–
Unrealised losses on investments held	(2,919)	(438)
Closing valuation at year end	131,201	102,581
Book cost at end of the year	134,120	103,019
Unrealised losses on investment holdings at the year end	(2,919)	(438)
Closing valuation at year end	131,201	102,581

(c) Losses on investments

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Realised gains/(losses) on investments	595	(457)
Unrealised losses on investments held	(2,481)	(283)
Foreign exchange gains/(losses)	622	(125)
Total losses on investments	(1,264)	(865)

4. Investment in subsidiary

	Company As at 31 December 2019 £'000	Company As at 31 December 2018 £'000
Investment in subsidiary	50	50
Total	50	50

Subsidiary name	Effective ownership %	Country of incorporation	Principal activity
RM ZDP plc	100	Mermaid House, 2 Puddle Dock, London, EC4V 3DB, United Kingdom	Issuance of zero dividend preference shares

5. Income

Group and Company	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Income from investments		
Bond and loan interest	11,529	7,547
Bank interest	4	7
Arrangement fees	190	354
Loan redemption fees	451	228
Delayed Compensation fees received	148	—
Other income	219	63
Total	12,541	8,199

Notes to the financial statements

continued

6. Investment management fee

Group and Company	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Basic fee:		
100% charged to revenue	1,062	894
Total	1,062	894

The Company's Investment Manager is RM Capital Markets Limited. The Investment Manager is entitled to receive a management fee payable monthly in arrears and is at a rate of one-twelfth of 0.5% if the Company's net assets are less than £75 million. If the Company's net assets are in excess of £75 million then they are entitled to receive a management fee one twelfth of 0.875% per calendar month of net assets payable a month in arrears. In calculating Net Asset Value for these purposes all assets referable to the issue of ZDP Shares shall be counted as though they were assets of the Company but, for the avoidance of doubt, no liabilities referable to the issue of any ZDP Shares shall be deducted.

There is no performance fee payable to the Investment Manager.

7. Other expenses

Group

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Basic fee charged to revenue:		
Administration Fees	263	210
Auditor's remuneration*:		
Statutory audit fee	75	74
Non-audit fees	—	27
Broker Fees	90	91
Consultancy Fees	100	72
Directors' Fees	99	99
AIFM Fees	164	146
Registrars fee	46	40
Valuation Fees	118	80
Other Expenses	125	139
Total revenue expenses	1,080	978
Expenses charged to capital:		
Prospectus issue and capital transaction costs	145	156
Total expenses	1,225	1,134

Company

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Basic fee charged to revenue:		
Administration Fees	221	186
Auditor's remuneration*:		
Statutory audit fee	64	66
Non-audit fees	–	27
Broker Fees	90	91
Consultancy Fees	100	72
Directors' Fees	99	99
AI/AM fees	164	144
Registrars fees	34	40
Valuation Fees	118	80
Other Expenses	112	115
Total revenue expenses	1,002	920
Expenses charged to capital:		
Prospectus issue and capital transaction costs	164	156
Total expenses	1,166	1,076

* Auditor's remuneration includes VAT of £12,000 (2018: £12,000) on statutory audit fees and £nil (2018: £5,000) on non-audit fees.

8. Finance costs

Group

	Year ended 31 December 2019			Year ended 31 December 2018		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Loan arrangement fees	48	–	48	95	–	95
Loan interest paid	107	–	107	–	–	–
ZDP Shares finance costs	386	–	386	285	–	285
C Share finance costs	–	–	–	–	657	657
	541	–	541	380	657	1,037

Notes to the financial statements

continued

8. Finance costs

Company

	Year ended 31 December 2019			Year ended 31 December 2018		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Loan arrangement fees	48	–	48	95	–	95
Loan Interest paid	107	–	107	–	–	–
ZDP inter-company loan finance costs	386	–	386	285	–	285
C Share finance costs	–	–	–	–	657	657
	541	–	541	380	657	1,037

The Company has a £10.5 million revolving credit facility with OakNorth Bank. This will facilitate the tactical use of borrowings ahead of any known investment redemptions or capital raises. Aside from setup costs and an arrangement fee, there is no additional cost to maintaining the facility. Interest will accrue on each Loan at the annual at the annual percentage of which is the aggregate of three-month LIBOR and 3.65% per annum.

There had been no drawdown of the facility as at the year end. During the year, the Company drew down £16.9 million from the credit facility, which was subsequently fully repaid before the year end.

9. Taxation

Group

	Year ended 31 December 2019			Year ended 31 December 2018		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Analysis of tax charge/(credit) the year:						
Corporation tax	42	(18)	24	37	(17)	20
Total current tax charge (see note 9 (b))	42	(18)	24	37	(17)	20

Company

	Year ended 31 December 2019			Year ended 31 December 2018		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Analysis of tax charge/(credit) the year:						
Corporation tax	15	(15)	–	17	(17)	–
Total current tax charge (see note 9 (b))	15	(15)	–	17	(17)	–

(b) Factors Affecting the tax charge for the year:

The effective UK corporation tax rate for the year is 19.00% (2018:19.00 %). The tax charge differs from the charge resulting from applying the standard rate of UK corporation tax for an investment trust company. The differences are explained below:

Group

	Year ended 31 December 2019			Year ended 31 December 2018		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Return on ordinary activities before taxation	9,858	(1,306)	8,552	5,947	(1,620)	4,327
UK corporation tax at 19.00% (2018:19.00%)	1,873	(248)	1,625	1,130	(308)	822
Effects of:						
Capital contribution not (taxable)/deductible	31	—	31	—	—	—
Fair value losses not deductible	—	221	221	—	153	153
Effect of management expenses not utilised	—	(15)	(15)	—	20	20
Interest distributions paid/payable	(1,908)	—	(1,908)	(1,147)	(38)	(1,185)
Finance costs not allowable	42	—	42	54	125	179
Management expenses not allowable	4	24	28	—	31	31
Total tax charge	42	(18)	24	37	(17)	20

The Group is not liable to tax on capital gains due to its status as an investment trust.

Company

	Year ended 31 December 2019			Year ended 31 December 2018		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Return on ordinary activities before taxation	9,936	(1,428)	8,508	6,005	(1,678)	4,327
UK corporation tax at 19.00% (2018:19.00%)	1,888	(271)	1,617	1,141	(319)	822
Effects of:						
Intercompany income not deductible	31	—	31	23	—	23
Fair value losses not deductible	—	221	221	—	164	164
Effect of management expenses not utilised	—	(15)	(15)	—	20	20
Interest distributions paid/payable	(1,908)	—	(1,908)	(1,147)	(37)	(1,184)
Finance costs not allowable	—	—	—	—	125	125
Management expenses not allowable	4	50	54	—	30	30
Total tax charge	15	(15)	—	17	(17)	—

The Company is not liable to tax on capital gains due to its status as an investment trust.

(c) Deferred tax assets/(liabilities)

The Group and Company had no recognised or unrecognised deferred asset/liability as at the year end.

Notes to the financial statements

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10. Receivables

Group

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Amounts falling due within one year:		
Loans receivable	–	1,525
Bond and loan interest receivable	1,861	904
Prepayments and other receivables	405	173
	2,266	2,602

Company

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Amounts falling due within one year:		
Loans receivable	–	1,525
Bond and loan interest receivable	1,861	904
Inter company receivables	–	43
Prepayments and other receivables	349	71
	2,210	2,543

11. Payables

Group

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Amounts falling due within one year:		
Unsettled investments purchases	8,846	4,697
Taxation payable	24	20
Other creditors	1,918	1,729
	10,788	6,446

Company

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Amounts falling due within one year:		
Unsettled investments purchases	8,846	4,697
Inter company payable	50	–
Other creditors	1,868	1,702
	10,764	6,399

12. Zero dividend preference shares

	Group As at 31 December 2019 £'000	Group As at 31 December 2018 £'000
Zero Dividend Preference Shares	11,155	10,870
ZDP Shares finance costs	386	285
	11,541	11,155

Authorised

The maximum number of ZDP Shares to be issued pursuant to the Initial ZDP Placing, as disclosed in the Prospectus dated 12 March 2018, has been set at 20 million. At a general meeting of the RM ZDP held on 7 March 2018, a special resolution was passed to issue up to 60 million ZDP Shares. On 3 April 2018, the Group issued 10,869,950 ZDP Shares of a nominal value of 1 pence each at a placing price of 100 pence each to raise gross proceeds of £10,869,950, which were allotted and fully paid up.

The Parent Company incurred ZDP Share issue costs of £129,000, which has been amortised over the life of ZDP Shares. Amortised cost for this year amounts to £43,000 (2018: £32,000) and is included under other expenses in note 7.

Rights attaching to the ZDP Shares

The ZDP Shares carry no right to receive dividends or other distributions out of revenue or any other profits of the Group. The ZDP Shares will have a life of 3 years and, on that basis, a Final Capital Entitlement of £12,055,000 (110.91 pence per ZDP Share) on the ZDP Repayment Date of 6 April 2021, equivalent to a Redemption Yield of 3.5% per annum (compounded annually) on the Issue Price. Under the obligations of Loan Agreement, the Ordinary Shares and the C Shares of the Parent rank behind the ZDP Shares.

Voting rights of ZDP Shares

The ZDP Shareholders shall have the right to receive notice of all general meetings of RM ZDP for information purposes, but shall have no right to attend or vote at any such meeting of RM ZDP. For the avoidance of doubt:

- any resolution to alter, modify or abrogate the special rights or privileges attached to the ZDP Shares shall require separate class consent (by special resolution) at a class meeting of ZDP Shareholders convened and held in accordance with the ZDP Articles; and
- any ZDP Recommended Resolution or any resolution to approve a ZDP Reconstruction Proposal (if required) shall only be approved by RM ZDP Ordinary Shareholders provided they have first been approved by way of a ZDP Class Consent.

Notes to the financial statements

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12. Zero dividend preference shares continued

Variation of rights and Distribution on winding up

Subject to the Companies Act, on a return of capital, on a winding-up or otherwise, ZDP Shareholders will be entitled to receive an amount equal to the Initial Capital Entitlement of 100 pence per ZDP Share, increased at such daily accrual rate as compounds annually to give a Final Capital Entitlement of 110.91 pence per ZDP Shares at the ZDP Repayment Date of 6 April 2021, which is equivalent to a Redemption Yield of 3.5% per annum (compounded annually).

The Final Capital Entitlement will rank behind any liabilities of the Group. The ZDP Shares carry no entitlement to income and the whole of their return accordingly takes the form of capital. The ZDP Shareholders are not entitled to receive any part of the revenue profits (including any accumulated revenue reserves) of the Company on a winding-up, even if the accrued capital entitlement of the ZDP Shares will not be met in full.

13. Intercompany loan

	Company As at 31 December 2019 £'000	Company As at 31 December 2018 £'000
Intercompany loan payable to RM ZDP	11,155	10,870
Finance costs and capital contribution	386	285
	11,541	11,155

Intercompany Loan Agreement

On 29 March 2018, the Company entered into a Loan Agreement with RM ZDP (the "Intercompany Loan"). Pursuant to the Loan Agreement, RM ZDP lent the entirety of the gross proceeds of the issue of ZDP Shares on 3 April 2018 to the Company, which has been applied towards making investments in accordance with the Investment Policy and for working capital purposes.

The Loan Agreement provides that, interest will accrue on the intercompany loan daily at a rate of 2% per annum, compounded annually on each anniversary of Admission of the ZDP Shares and will be rolled up and paid to RM ZDP along with repayment of the principal amount of the intercompany loan on the date falling 2 Business Days before the ZDP Repayment Date of 6 April 2021, provided that the intercompany loan shall become repayable by the Company immediately upon the passing of a winding-up resolution of RM ZDP.

Deed of Undertaking

The Company also entered into an undertaking with RM ZDP, pursuant to which, to the extent that the Final Capital Entitlement multiplied by the number of outstanding ZDP Shares as at the ZDP Repayment Date exceeds the aggregate principal amount and accrued interest due from the Company to RM ZDP as at the Repayment Date, the Company shall: (i) subscribe an amount equal to or greater than the additional funding requirement for RM ZDP Ordinary Shares or (ii) make a capital contribution or gift or otherwise pay an amount equal to or greater than the additional funding requirement.

Further details in relation to the ZDP Shares can be found in note 12.

Finance costs comprises £221,000 (2018: £163,000) interest pursuant to the loan agreement between the Company and RM ZDP and £165,000 (2018: £122,000) other finance costs in connection with the intercompany loan.

14. Share capital (Group and Company)

	As at 31 December 2019		As at 31 December 2018	
	No. of Shares	£'000	No. of Shares	£'000
Allotted, issued & fully paid:				
Ordinary shares of 1p	122,224,581	1,222	98,724,581	987

Share movement

The table below sets out the share movement for the year ended 31 December 2019.

	Opening balance	Shares issued	Share conversions	Shares in issue at 31 December 2019
Ordinary Shares	98,724,581	23,500,000	–	122,224,581

During the year there were 23.5 million Ordinary Shares issued as a result of 2 Placing Programmes which raised aggregate proceeds of £23.5 million. The first in February resulted in an issue of 13.5 million Ordinary shares with aggregate proceeds of £13.5 million and a further in November which resulted in 10.0 million Ordinary Shares being issued for aggregate proceeds of 10.0 million. Share issue costs incurred during the year amounted to £470,000 (2018: £264,000).

15. Share premium (Group and Company)

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Balance as at beginning of the year	47,351	6,845
C Shares conversion to Ordinary shares	–	30,574
Premium arising on issue of C Shares	–	10,196
C Share conversion costs	–	(264)
Issue Ordinary shares	23,265	–
Share issue costs	(470)	–
	70,146	47,351

16. Return per ordinary share (Group and Company)

Based on the weighted average of number of 110,960,198 (2018: 86,484,141) Ordinary Shares in issue for the year ended 31 December 2019, the returns per share were as follows:

Group

	Year ended 31 December 2019			Year ended 31 December 2018		
	Revenue	Capital	Total	Revenue	Capital	Total
Return per ordinary share	8.85p	(1.16p)	7.69p	6.83p	(1.85p)	4.98p

Company

	Year ended 31 December 2019			Year ended 31 December 2018		
	Revenue	Capital	Total	Revenue	Capital	Total
Return per ordinary share	8.94p	(1.27p)	7.67p	6.92p	(1.92p)	5.00p

Notes to the financial statements

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17. Net asset value per share (Group and Company)

The net asset value per share is based on total Group and Company shareholders' funds of £119,528,000 (2018: £95,720,000), and on 122,224,581 (2018: 98,724,581) Ordinary Shares in issue at the year end.

18. Dividend (Group and Company)

Total dividends paid in the year

	Year ended 31 December 2019				Year ended 31 December 2018			
	Pence per Ordinary share	Revenue £'000	Capital £'000	Total £'000	Pence per Ordinary share	Revenue £'000	Capital £'000	Total £'000
2018 Interim – Paid 29 Mar 2019 (2018: 23 Mar 2018)	1.6250p	1,604	–	1,604	2.0000p	1,146	–	1,146
2019 Interim – Paid 25 Jun 2019 (2018: 29 Jun 2018)	2.0000p	2,244	–	2,244	1.6250p	1,420	–	1,420
2019 Interim – Paid 26 Sep 2019 (2018: 14 Sep 2018)	1.6250p	1,824	–	1,824	1.6250p	1,506	99	1,605
2019 Interim – Paid 24 Dec 2019 (2018: 28 Dec 2018)	1.7000p	2,078	–	2,078	1.6250p	1,506	99	1,605
Total	6.9500p	7,750	–	7,750	6.8750p	5,578	198	5,776

The dividend relating to the year ended 31 December 2019, which is the basis on which the requirements of Section 1159 of the Corporation Tax Act 2010 are considered is detailed below:

Total dividends paid in the year

	Year ended 31 December 2019				Year ended 31 December 2018			
	Pence per Ordinary share	Revenue £'000	Capital £'000	Total £'000	Pence per Ordinary share	Revenue £'000	Capital £'000	Total £'000
2019 Interim – Paid 25 Jun 2019* (2018: 29 Jun 2018)	2.0000p	2,244	–	2,244	1.6250p	1,420	–	1,420
2019 Interim – Paid 26 Sep 2019 (2018: 14 Sep 2018)	1.6250p	1,824	–	1,824	1.6250p	1,506	99	1,605
2019 Interim – Paid 24 Dec 2019** (2018: 28 Dec 2018)	1.7000p	2,078	–	2,078	1.6250p	1,506	99	1,605
2019 Interim – Payable 27 March 2020*** (2018: 29 Mar 2019)	1.7000p	2,078	–	2,078	1.6250p	1,604	–	1,604
Total	7.0250p	8,224	–	8,224	6.5000p	6,036	198	6,234

* Interim dividend of 2.000 pence per ordinary share includes an additional special dividend of 0.375 pence per ordinary share in respect of the period from 1 January 2019 to 31 March 2019.

** Interim dividend of 1.7000 pence per ordinary share includes an additional special dividend of 0.075 pence per ordinary share in respect of the period from 1 July 2019 to 30 September 2019.

*** Interim dividend of 1.7000 pence per ordinary share includes an additional special dividend of 0.075 pence per ordinary share in respect of the period from 1 October 2019 to 31 December 2019. Not included as a liability in the year ended 31 December 2019 financial statements.

On the 25 February 2020, the Directors approved the payment of an interim dividend for year ended 31 December 2019 to ordinary shareholders at the rate of 1.625 pence per Ordinary Share and an additional special dividend of 0.075 pence per Ordinary Share. The dividend had a record date of 6 March 2020 and was paid on 27 March 2020. The dividend was funded from the Company's revenue reserve.

19. Related party transaction

Fees payable to the Investment Manager are shown in the Statement of Comprehensive Income. As at 31 December 2019 the fee outstanding to the Investment Manager was £96,000 (2018: £78,000).

Fees are payable at an annual rate of £36,000 to the Chairman, £33,000 to the Chairman of the Audit Committee and £30,000 to the other Directors. As at 31 December 2019, there were no Directors' fees outstanding. The Directors' fees are disclosed in Note 7 and the Directors' shareholdings are disclosed in the Directors Remuneration Report on page 31.

The principal amount and finance costs payable to RM ZDP are disclosed in note 13.

Arrangement fees are paid by some borrowers to the Investment Manager. The amount the Investment Manager can retain from borrowers in most cases is capped at 1.25% and agreed with the Board. The Company receives any arrangement fees from the Investment Manager in excess of the 1.25% or otherwise agreed with the borrower. During the year to 31 December 2019, the Company received £190,000 (2018: £354,000) in arrangement fees.

As at 31 December 2019, the Investment Manager held 1,199,825 (2018: 902,075) Ordinary Shares in the Company.

On the 16 January 2020, the Investment Manager purchased further Ordinary Shares in the Company, and as of the date of this report, the Investment Manager's total holding of Ordinary Shares is 1,199,825 (2018: 939,000).

20. Classification of financial instruments

IFRS 13 requires the Group/Company to classify its investments in a fair value hierarchy that reflects the significance of the inputs used in making the measurements. IFRS 13 establishes a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The three levels of fair value hierarchy under IFRS 13 are as follows:

Level 1

Inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2

Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3

Inputs are unobservable for the asset or liability.

The classification of the Group/Company's investments held at fair value through profit or loss is detailed in the table below:

Group

	31 December 2019				31 December 2018			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets:								
Financial assets – Private loans and bonds	–	43,323	–	43,323	–	44,568	–	44,568
Financial assets – Private loans	–	–	87,878	87,878	–	–	58,013	58,013
Total	–	43,323	87,878	131,201	–	44,568	58,013	102,581
Financial liabilities:								
Zero Dividend Preference Shares (market value)	11,561	–	–	11,561	11,142	–	–	11,142
Total financial liabilities	11,561	–	–	11,561	11,142	–	–	11,142

Notes to the financial statements

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20. Classification of financial instruments continued

Company

	31 December 2019				31 December 2018			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets:								
Financial assets – Private loans and bonds	–	43,323	–	43,323	–	44,568	–	44,568
Financial assets – Private loans	–	–	87,878	87,878	–	–	58,013	58,013
Total	–	43,323	87,878	131,201	–	44,568	58,013	102,581
Financial liabilities:								
Intercompany loan payable (market value)	11,561	–	–	11,561	11,142	–	–	11,142
Total financial liabilities	11,561	–	–	11,561	11,142	–	–	11,142

Investments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2.

Level 3 holdings are valued using a discounted cash flow analysis and benchmarked discount/interest rates appropriate to the nature of the underlying loan and the date of valuation.

Interest rates are a significant input into the Level 3 valuation methodology. Interest rates used in the valuation range from 5.9% to 24% (2018: 5.4% to 15.0%). Sensitivity analysis of interest rates can be found at page 73.

There have been no movements between levels during the reporting year. The Company considers factors that may necessitate the transfers between levels using the definition of the levels 1, 2 and 3 above.

Reconciliation of the Level 3 classification investments during the year to 31 December 2019 is shown below:

	31 December 2019 £'000	31 December 2018 £'000
Balance as at beginning of the year	58,013	40,883
New loans during the year	68,906	54,743
Repayments during the year	(37,359)	(37,226)
Realised gains during the year	195	(67)
Unrealised loss at the year end	(1,877)	(320)
Closing balance as at 31 December	87,878	58,013

21. Financial instrument and capital disclosures

The Group invests in private loan and bond investments. Financial instrument and capital disclosures are only prepared on a Group basis as this is the basis on which reports are made to the decision makers. The following describes the risks involved and the applied risk management. The Investment Manager reports regularly both verbally and formally to the Board, and its relevant committees, to allow them to monitor and review all the risks noted below.

(i) Market risks

The Group is subject to a number of Market risks in relation to economic conditions of the investee companies. Further detail on these risks and the management of these risks are included in the Directors' report.

The Group's financial assets and liabilities at the year end comprised:

	Group 31 December 2019			Group 31 December 2018		
	Interest bearing £'000	Non-interest bearing £'000	Total £'000	Interest bearing £'000	Non-interest bearing £'000	Total £'000
Investments						
GB sterling	118,293	–	118,293	80,931	–	80,931
Euro	12,908	–	12,908	14,253	–	14,253
US dollar	–	–	–	7,397	–	7,397
Total investment	131,201	–	131,201	102,581	–	102,581
Assets and liabilities						
Cash and cash equivalents	8,390	–	8,390	8,138	–	8,138
Receivables	–	2,266	2,266	–	2,602	2,602
Payables	–	(10,788)	(10,788)	–	(6,446)	(6,446)
Zero Dividend Preference Shares	(11,541)	–	(11,541)	(11,155)	–	(11,155)
Total	128,050	(8,522)	119,528	99,564	(3,844)	95,720

Price risk sensitivity

The effect on the portfolio of a 10.0% increase or decrease in the value of the loans would have resulted in an increase or decrease of £13,120,000 (2018: £9,917,000) in the investments held at fair value through profit or loss at the year end date. This analysis assumes that all other variables remain constant.

Notes to the financial statements

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21. Financial instrument and capital disclosures continued

(ii) Credit risks

The Group's investments will be predominantly in the form of private loans whose revenue streams are secured against contracted, predictable medium to long-term cash flows and/or physical assets, and whose debt service payments are dependent on such cash flows and/or the sale or refinancing of the physical assets. The key risks relating to the private loans include risks relating to residual value, counterparty default, senior debt covenant breach risk, bridge loans, delays in the receipt of anticipated cash flows and borrower default, loan non-performance and collateral risks.

The Group is also exposed to the risk of default on cash held at the bank and other trade receivables. The maximum exposure to credit risk on private loans and bonds, cash at bank and other trade receivables at 31 December 2019 was £8,390,000 and £2,266,000 respectively (2018: £9,308,000 and £1,472,000). Impairment incurred on the balances is not considered material to the Group and Company.

The table below shows the Group's exposure to credit risks at the year end.

	Fair value £'000	Maximum exposure £'000	Fair value £'000	Maximum exposure £'000
Private loan investments	124,879	124,879	92,558	92,558
Bond investments	6,322	6,322	10,023	10,023
Cash and cash equivalent	8,390	8,390	8,138	8,138
Receivables	2,266	2,266	2,602	2,602
Total	141,857	141,857	113,321	113,321

Management of risks

The Investment Manager reports a number of key metrics on a monthly basis to its Credit Committee including pipeline project information, outstanding loan balances, lending book performance and early warning indicators. The Investment Manager monitors ongoing credit risks in respect of the loans. Typically, the Company's loan investments are private loans and would usually exhibit credit risk classified as "non-investment" if a public rating agency was referenced.

The Group's main cash balances are held with The Royal Bank of Scotland plc ("RBS"). Bankruptcy or insolvency of the bank holding cash balances may cause the Group's rights with respect to the cash held by them to be delayed or limited. The Group manages its risk by monitoring the credit quality of RBS on an ongoing basis.

(iii) Interest rate risks

Private Loans

The Group may make private loans based on estimates or projections of future interest rates because the Investment Manager expects that the underlying revenues and/or expenses of a borrower to whom the Group provides loans will be linked to interest rates, or that the Group's returns from a private loan are linked to interest rates. If actual interest rates differ from such expectation, the net cash flows of the borrower or payable to the Group may be lower than anticipated.

Interest rate sensitivity

Interest Income earned by the Company is primarily derived from fixed interest rates. The interest earned from the floating element of loan and debt security investments is not significant. Based on the Group's private loan investments, bond investments, cash and cash equivalents as at 31 December 2018, a 0.50% increase/(decrease) in interest rates, all other things being equal, would lead to a corresponding increase/(decrease) in the Group's income as follows.

	Group 31 December 2019		Group 31 December 2018	
	0.50% Increase £'000	0.50% Decrease £'000	0.50% Increase £'000	0.50% Decrease £'000
Private loans investments	439	(439)	463	(463)
Bond investments	217	(217)	50	(50)
Cash and cash equivalent	42	(42)	41	(41)
Total	698	(698)	554	(554)

Management of risks

The Investment Manager's investment process takes into account interest rate risk. The investment strategy is to invest in private loans with maturities typically between 2 and 10 years. Exposure to predominantly higher yielding loans and possible floating rate investments can mitigate interest rate risk to some extent. On a monthly basis, Investment Managers review fixed/floating and weighted average life of the portfolio for interest rate risk.

(iv) Liquidity risks

Liquidity risk is defined as the risk that the Group will encounter difficulties in realising assets or otherwise raising funds to meet financial commitments. The cash and cash equivalent balance at the year end was £8,390,000 (2018: £9,308,000).

Financial liabilities by maturity at the year end are shown below:

	31 December 2019 £'000	31 December 2018 £'000
Within one month	9,052	4,697
Between one and three months	349	925
Between three months and one year	869	—
More than one year*	12,059	12,879
Total	22,329	18,501

* Includes ZDP shares capital redemption value of £12,055,000.

The Investment Manager manages the Group's liquidity risk by investing in a diverse portfolio of private loans and bonds in line with the Investment Policy and Investment restrictions on page 9. The Investment Manager may utilise other measures such as borrowing, share issues including treasury shares for liquidity purposes.

Notes to the financial statements

continued

21. Financial instrument and capital disclosures continued

The maturity profile of the Group's portfolio as at the year end is as follows:

	31 December 2019 £'000	31 December 2018 £'000
Within one month	10,833	–
Between one and three months	–	1,306
Between three months and one year	15,626	11,547
More than one year	104,742	89,728
Total	131,201	102,581

(v) Foreign currency risks

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Group's functional currency. The Group invests in bond investments that are denominated in currencies other than sterling. Accordingly, the value of the Group's assets may be affected favourably or unfavourably by fluctuations in currency rates and therefore the Group will necessarily be subject to foreign exchange risks.

Based on the financial assets and liabilities at 31 December 2019 and all other things being equal, if sterling had weakened against the local currencies by 10%, the impact on the Group's net assets at 31 December 2019 would have been as follows:

	31 December 2019 £'000	31 December 2018 £'000
Euro	211	64
US dollar	16	32
Total	227	96

Foreign currency risk profile

	31 December 2019			31 December 2018		
	Investment exposure* £'000	Net monetary exposure £'000	Total currency exposure £'000	Investment exposure £'000	Net monetary exposure £'000	Total currency exposure £'000
Euro	1,443	667	2,110	380	261	641
US dollar	–	158	158	312	12	324
Total	1,443	825	2,268	692	273	965

* As at the year end, the Group held forward instruments, which has reduced the foreign exchange exposure to investment in euros by the equivalent of £12,055,000.

Management of currency risks

The Group's Investment Manager monitors the currency risk of the Group's portfolio on a regular basis. Foreign currency exposure is regularly reported to the Board by the Investment Manager. The Investment Manager may hedge any currency back to sterling as they see fit.

Fair values of financial assets and liabilities

All financial assets and liabilities are recognised in the financial statements at fair value, with the exception of short-term assets, liabilities and Zero Dividend Preference Shares, which are held at amortised cost for which fair value is given in note 20.

Capital management

The Group considers its capital to consist of its share capital of Ordinary Shares of 1 pence each and Zero Dividend Preference Shares of £1.00, its distributable reserves, which comprise Revenue reserve, Capital reserve and the Special reserve. In accordance with IFRS, the Group's Ordinary Shares are considered to be equity and ZDP Shares are considered to financial liability.

The Group has a stated discount control policy. The Investment Manager and the Group's broker monitor the demand for the Group's shares and the Directors review the position at Board meetings. Further details on share issues during the year and the Group's policies for issuing further shares and buying back shares (including the Group's discount management) can be found in the Directors' Report on pages 20 and 21.

The Group did not buy back Ordinary Shares and had no shares in treasury during the year.

The Group's policy on borrowing is detailed on page 9.

The Group has entered into a £10m revolving credit facility with OakNorth Bank. The Group is required to comply with various covenants contained in the facility agreement. In particular, the loan to net asset value ratio must not exceed 20% of the Group's calculated at the time of draw down. There were no draws down during the year to 31 December 2019 (2018: nil).

22. Post balance sheet events

The recent outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. The global impact of the outbreak is rapidly evolving, and many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of COVID-19, are creating significant disruption in supply chains and economic activity and are having a particularly adverse impact on transportation, hospitality, tourism, entertainment and other industries. The impact of COVID-19 has led to significant volatility and declines in the global markets and it is uncertain how long this volatility will continue. As explained in the Chairman's Statement and the Investment Managers report, the economic and financial implications in the medium to long term are unclear and a prolonged and deep market decline could lead to falling values in underlying businesses or interruptions to cash flow which will impact the fair value of investments. The Board considers the emergence of the COVID-19 coronavirus pandemic to be a non-adjusting post balance sheet event.

The NAV per share as at 31 March 2020, published by the Company on 16 April 2020, was 86.64p. As at 31 December 2019 the NAV per share was 97.79p.

Alternative Performance Measures ('APMs')

APMs are often used to describe the performance of investment companies although they are not specifically defined under IFRS. APM calculations for the Company are shown below.

Gross asset

The Group's gross assets comprise the net asset values of the Group's Ordinary Shares and the accrued capital entitlement of the ZDP Shares, with the breakdown as follows:

As at 31 December 2019		Page	£'000	Per Share (Pence)
Ordinary Shares – NAV	A	46	119,528	97.79
RM ZDP plc – Accrued entitlement	b	65	11,541	106.18
Gross asset value	a+b		131,069	n/a

Ongoing charges

A measure, expressed as a percentage of average net assets, of the regular, recurring annual costs of running an investment company in accordance with the AIC methodology

Year end 31 December 2019		Page		
Average NAV (£'000)	a	n/a	121,302	
Recurring expenses * (£'000)	b	44	2,142	
	b÷a			1.77%

* Consists of investment management fees of £1,062,000 and other recurring expenses of £1,080,000. Prospectus issue and capital transactions are not considered to be recurring costs and therefore have not been included.

Premium

The amount, expressed as a percentage, by which the share price is more than the Net Asset Value per share.

As at 31 December 2019		Page		
NAV per Ordinary Share (p)	a	46	97.79	
Share price (p)	b	1	99.50	
Premium	(b/a)-1			1.7%

Total return

A measure of performance that includes both income and capital returns. This takes into account capital gains and reinvestment of dividends paid out by the Group into its Ordinary Shares on the ex-dividend date.

As at 31 December 2019		Page	NAV	Share Price
Opening at 1 January 2019 (p)	A	n/a	96.96	101.50
Closing at 31 December 2019 (p)	b	1	97.79	99.50
Dividend adjustment factor	c	n/a	1.0728	1.0701
Adjusted closing (d = b x c)	d	n/a	104.91	106.47
Total return	(d/a)-1		8.2%	4.9%

Glossary

Admission	Admission of the Ordinary or C Shares to the premium listing segment of the Official List of the UKLA and admission of the Shares to trading on the main market for listed securities of the London Stock Exchange.
AIC	Association of Investment Companies
Alternative Investment Fund or 'AIF'	An investment vehicle under AIFMD. Under AIFMD (see below) the Company is classified as an AIF.
Alternative Investment Fund Managers Directive or 'AIFMD'	A European Union directive which came into force on 22 July 2013 and has been implemented in the UK.
Annual General Meeting or 'AGM'	A meeting held once a year which shareholders can attend and where they can vote on resolutions to be put forward at the meeting and ask directors questions about the Company in which they are invested.
C Shares	C Shares of 10 pence each in the capital of the Company.
CTA 2010	Corporation Tax Act 2010.
Custodian	An entity that is appointed to safeguard a company's assets.
Discount	The amount, expressed as a percentage, by which the share price is less than the net asset value per share.
Dividend	Income receivable from an investment in shares.
Ex-dividend date	The date from which you are not entitled to receive a dividend which has been declared and is due to be paid to shareholders.
Financial Conduct Authority or 'FCA'	The independent body that regulates the financial services industry in the UK.
Gearing	A way to magnify income and capital returns, but which can also magnify losses. A bank loan is a common method of gearing.
Index	A basket of stocks which is considered to replicate a particular stock market or sector.
Investment company	A company formed to invest in a diversified portfolio of assets.
Investment Trust	An investment company which is based in the UK and which meets certain tax conditions which enables it to be exempt from UK corporation tax on its capital gains. The Company is an investment trust.
Leverage	<p>An alternative word for "Gearing".</p> <p>Under AIFMD, leverage is any method by which the exposure of an AIF is increased through borrowing of cash or securities or leverage embedded in derivative positions.</p> <p>Under AIFMD, leverage is broadly similar to gearing, but is expressed as a ratio between the assets (excluding borrowings) and the net assets (after taking account of borrowing). Under the gross method, exposure represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.</p>
Liquidity	The extent to which investments can be sold at short notice.
Loans or Secured Debt Instruments	Secured debt instruments of UK SMEs and mid-market corporates and/or individuals including any loan, promissory notes, lease, bond, or preference share such debt instruments.
Net assets	An investment company's assets less its liabilities
Net asset value (NAV) per Ordinary Share	Net assets divided by the number of Ordinary Shares in issue (excluding any shares held in treasury)
Ordinary Shares	The Company's Ordinary Shares of 1 pence each in the capital of the Company.
Portfolio	A collection of different investments held in order to deliver returns to shareholders and to spread risk.
Share buyback	A purchase of a company's own shares. Shares can either be bought back for cancellation or held in treasury.
Share price	The price of a share as determined by a relevant stock market.
Treasury shares	A company's own shares which are available to be sold by a company to raise funds.
Volatility	A measure of how much a share moves up and down in price over a period of time.
ZDP Share	Zero dividend preference Share

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