CQS NEW CITY HIGH YIELD FUND LIMITED

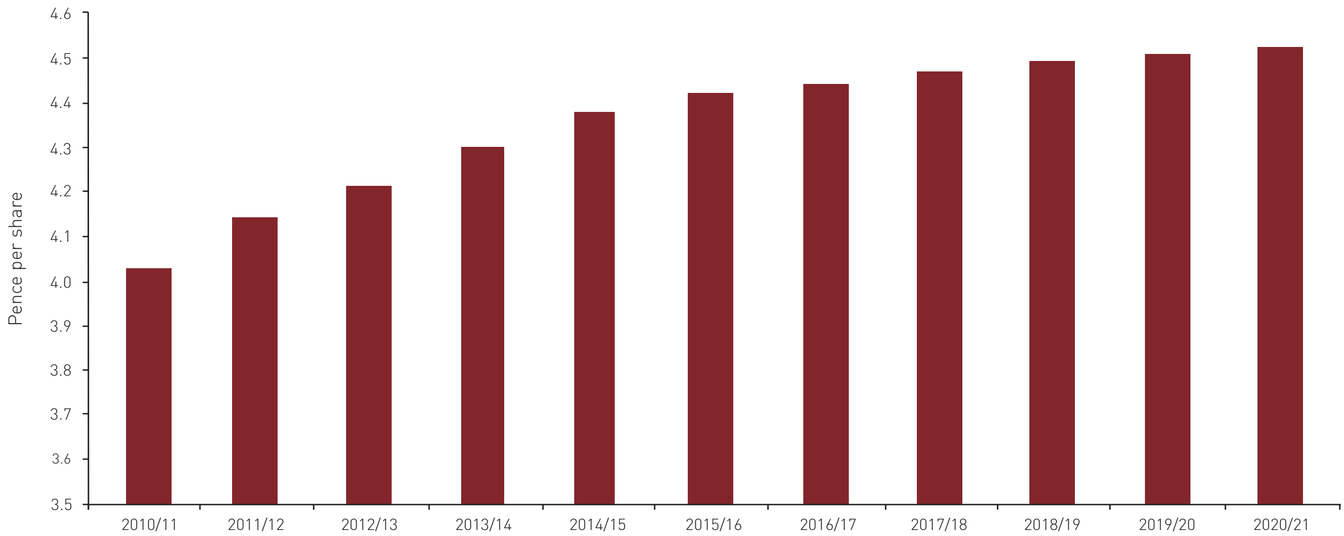
ANNUAL REPORT & FINANCIAL STATEMENTS

30 JUNE 2021

Purpose and Strategy

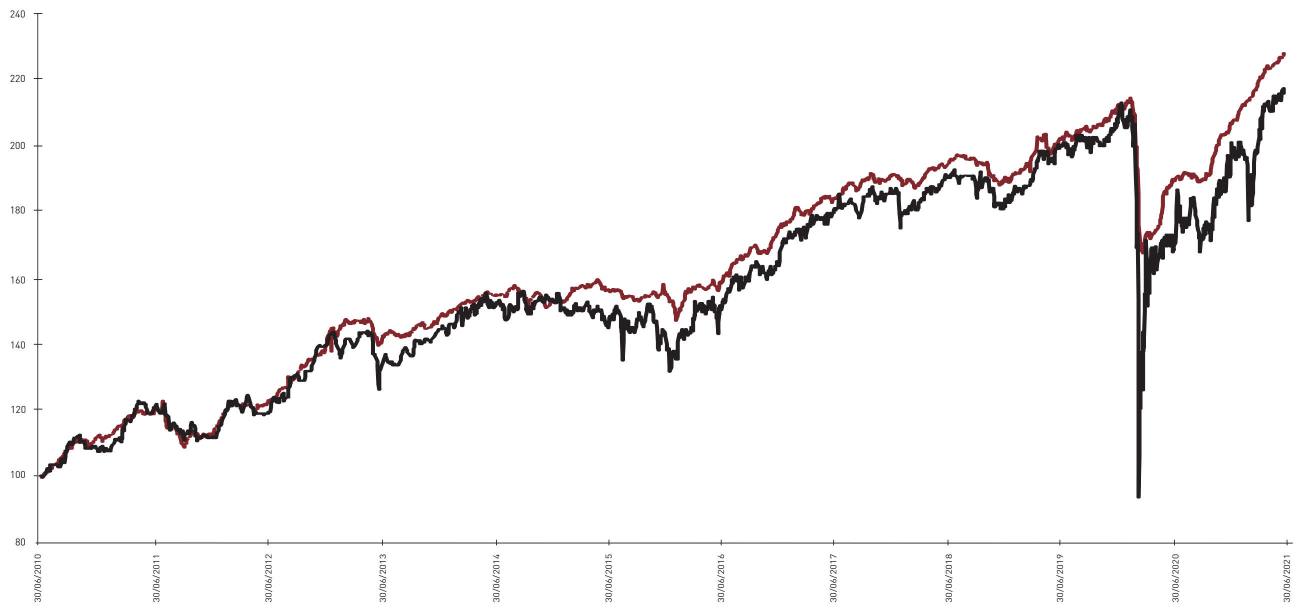
The purpose of the Company is to provide Shareholders with a high dividend yield and the potential for capital growth by investing predominantly in high yielding fixed interest securities. To achieve this, the strategy of the Company is to follow the investment policy outlined on page 15 of this report and to utilise the benefits of being a closed-ended investment vehicle.

Dividends Declared in Respect of Each Financial Year



Source: Bloomberg

Net Asset Value Total Return and Share Price Total Return



— Share price total return (dividends reinvested)
— Net asset value total return (dividends reinvested)

Index restated to 100 from 30 June 2010
Source: BNP Paribas Securities Services S.C.A., Jersey Branch
Bloomberg and Morningstar

Contents

Financial Highlights

Total Return*	Year to 30 June 2021	Year to 30 June 2020
Net asset value	**21.38%**	(6.22%)
Ordinary share price	**26.31%**	(14.14%)

Capital Values	30 June 2021	30 June 2020	% change
Total assets less current liabilities (with the exception of the bank loan facility)	**£267.2m**	£236.7m	12.89%
Net asset value per ordinary share	**52.62p**	47.52p	10.74%
Share price (bid)[1]	**54.80p**	47.40p	15.61%

Revenue and Dividends	30 June 2021	30 June 2020	% change
Revenue earnings per ordinary share*	**4.18p**	4.59p	(8.97%)
Annual dividends per ordinary share*	**4.47p**	4.46p	0.22%
Dividend cover*	**0.94x**	1.03x	(9.17%)
Revenue reserve per ordinary share (after recognition of annual dividends)*	**3.78p**	4.15p	
Dividend yield*	**8.16%**	9.41%	
Premium/(discount)*	**4.14%**	(0.25%)	
Gearing*	**9.45%**	13.68%	
Ongoing charges ratio*	**1.25%**	1.19%	

Dividend History	Rate	xd date	Record date	Payment date
First interim 2021	**1.00p**	**22 October 2020**	**23 October 2020**	**30 November 2020**
Second interim 2021	**1.00p**	**28 January 2021**	**29 January 2021**	**26 February 2021**
Third interim 2021	**1.00p**	**29 April 2021**	**30 April 2021**	**28 May 2021**
Fourth interim 2021	**1.47p**	**29 July 2021**	**30 July 2021**	**31 August 2021**
Annual dividend per ordinary share	**4.47p**			
First interim 2020	1.00p	24 October 2019	25 October 2019	29 November 2019
Second interim 2020	1.00p	23 January 2020	24 January 2020	28 February 2020
Third interim 2020	1.00p	23 April 2020	24 April 2020	29 May 2020
Fourth interim 2020	1.46p	23 July 2020	24 July 2020	28 August 2020
Annual dividend per ordinary share	4.46p			

[1] Source: Bloomberg.

* A description of the Alternative Performance Measures used above and information on how they are calculated can be found on pages 57 to 59.

Statement from the Chair

Highlights

- Net asset value total return of 21.38%
- Ordinary share price total return of 26.31%
- Dividend yield of 8.16%, based on dividends at an annualised rate of 4.47 pence and a share price of 54.80 pence as at 30 June 2021
- Ordinary share price trading at a premium of 4.14% as at 30 June 2021
- £6.4m of equity raised during the year to 30 June 2021.

Investment and Share Price Performance

When I last wrote to Shareholders in February 2021 I reported that there had been a welcome recovery in the Company's fortunes since the onset of the COVID-19 pandemic wreaked havoc on the markets. This recovery has continued into the second half of the Company's financial year and the full year performance numbers show a 21.38% total return from the net asset value and, thanks to a recovery in the price premium, a 26.31% total share price return. The premium stood at 4.14% as at 30 June 2021, up from approximately parity (0%) at the beginning of the financial year.

The ongoing COVID-19 pandemic as well as political issues such as Brexit and the US election have been a turbulent environment for your Investment Manager to operate in. However, Ian ("Franco") Francis has kept faith in his underlying philosophy and stock selection as well as trying to take advantage of market dislocations. The results for a portfolio investing mainly in fixed interest securities are, I believe, impressive and the Investment Manager's review on pages 5 to 6 provides more details.

Earnings and Dividends

The Company's revenue earnings per ordinary share were 4.18 pence for the financial year, 8.9% lower than the 4.59 pence earned last year. The decrease in earnings happened as a result of a few missed coupons/dividends such as Matalan Finance and Rea Holdings (which may be recouped later) and because the environment for refinancing at cheaper levels was favourable which meant the number of bonds that were redeemed early ('called') was greater than we anticipated and finding replacement bonds with the same level of payouts is getting harder. The latter is something the Board is monitoring closely.

The Company declared three interim dividends of 1.00 pence in respect of the period and one interim dividend of 1.47 pence since the year end. The aggregate payment of 4.47 pence per share represents a 0.22% increase on the 4.46 pence paid last year. The Board recognises the importance of the relatively high dividend to Shareholders and, as flagged in previous reports, decided to utilise 0.29 pence per share of our 4.15 pence per share (6.99%) revenue reserves to cover the shortfall of earnings. The Board also decided to increase this year's dividend, albeit marginally, to maintain the Company's record of annual increases which has been unbroken since 2007.

Looking forward, the Board expects to pay similar dividends in the current financial year to last, probably drawing modestly on our healthy reserves again. The Board believes that this policy is supported by our Shareholders whom we consult regularly and we envisage continuing in this way in the near future, utilising one of the advantages of being a closed-ended fund.

Gearing

In December 2020 the Company renewed its Scotiabank loan facility with a one year £35m facility at a current all-in rate of 1.387%. £33m was drawn down at 30 June 2021 and the Company had an effective gearing rate of 9.45%. As I have shared in previous reports, the Board believes that a modest but meaningful amount of gearing (another notable advantage of closed-ended funds compared to open-ended) is desirable and expects to maintain approximately this level of gearing during the next financial year.

Share Issuance

For most of the year to 30 June 2021 the market attached a premium rating to your Company's shares, allowing us to issue new shares in a gradual manner and only when your Investment Manager was confident he could invest the additional funds favourably. £6.4m was raised from new and existing Shareholders during the review period, with 12.2m ordinary shares issued from the block listing facility. As well as a modest increase in net asset value from any issue of shares, the Board expects that over time existing Shareholders will benefit from lower ongoing charges and greater liquidity in the Company's shares, all other things being equal.

COVID-19

In last year's annual report, I made this statement in respect of COVID-19:

The Board has been working closely with CQS (UK) LLP (The "Investment Manager") and the Company's key suppliers to minimise the risk the virus poses to the health and wellbeing of all those working on the management and administration of the Company. We have received regular updates to ensure that normal operations of the Company are continuing to work effectively and that there are no unforeseen risks to the Company's finances. I am pleased that the business continuity plans put in place have worked well and that we have been able to continue working effectively throughout the period of lockdown.

One year on and this statement holds true. Board and other meetings have been held virtually and our key suppliers continue to support the company to a high standard.

Environmental, Social and Governance ("ESG") Statement

The Board's intention is to invest responsibly and to consider the Company's broader impact on society and the environment. We believe the integration of ESG factors in the investment process is

Statement from the Chair

consistent with delivering sustainable attractive returns for Shareholders through deeper, more informed investment decisions. The Board has reviewed and agreed the ESG approach adopted by CQS and a summary of this is set out on pages 27 to 28.

Notice of Annual General Meeting

The notice of the Annual General Meeting to be held at 11.00 a.m. at IFC1, The Esplanade, St. Helier, Jersey, JE1 4BP on 2 December 2021, including the proposed resolutions, can be found on pages 60 to 62. We hope to be able to welcome shareholders to attend the meeting in person but the possibility of a closed meeting remains should local government guidance at that time suggest it necessary. The Board considers that the passing of the resolutions to be proposed at the Annual General Meeting is in the best interests of the Company and its Shareholders as a whole and is most likely to promote the success of the Company for the benefit of the Shareholders as a whole. The Board unanimously recommends that all Shareholders vote in favour of those resolutions.

Outlook

COVID-19 continues to impact all aspects of our lives and will do so for some time to come. Nevertheless, attractive investment opportunities in the universe from which we select our holdings continue to present themselves allowing your Investment Manager to run the Company's investment portfolio effectively.

Arguably the key economic debate at present is whether or not current price pressures are temporary and we are still, at least in the medium term, in a low inflationary environment. If inflation does become more persistent, your portfolio is likely to be less impacted than some other fixed interest portfolios because the average life of the bonds held is quite short which reduces price sensitivity to interest rates. Moreover, we have a small portion of the portfolio invested in equities (around 15%) which may give us a little inflation protection should it be needed. Credit risk – the risk that our bond issuers default on interest or final redemption payments – has always been our main focus and therefore the rigorous analysis carried out by CQS on individual bonds has been vital to the success of the portfolio. Once again, I see no reason why this should change.

What does this mean for your Company's future? I expect that Shareholders will continue to be rewarded with attractive dividend payments and, notwithstanding shorter term ups and downs, a real return over the years ahead.

Caroline Hitch
Chair

16 September 2021

Investment Manager's Review

Introduction

I am pleased to be able to report to Shareholders that your fund has enjoyed a good year of recovery from the lows we saw in April 2020. Although the financial news agenda in the economies we invest in remains dominated by COVID-19 issues, the underlying portfolio holdings have risen during the year under review. We have not seen huge monthly increases but rather a steady month on month gentle recovery in prices which nevertheless has meant that the total net asset value return for the year to 30 June 2021 is 21.4%

Market and economic review

The first half of our financial year featured the twin spectacles of Brexit and the US election as well as Western economies lurching between opening (remember "eat out to help out"!) and locking back down again. The only positives appeared to be stock markets looking ahead and the vaccine news announced towards the end of 2020.

As we entered 2021 and we started to see a way out of lockdown the UK economy signalled that it was ready for a post lockdown recovery, with business activity expanding and a rise in new orders being seen. The UK economy this year is all about how much of the mothballed spare capacity and furloughed workforce can come back on stream and how quickly the demand side recovers. The other major difference is that we now risk inflation rapidly increasing due to supply side shortages and commodity price inflation pushing prices higher, rather than the healthier demand led inflation, which signals a strong economy. The services side of the economy is also showing strength, with demands for restaurants, hotels and leisure for staycations in full flow. Forecasters are predicting that this strong growth will persist along with higher inflationary pressure, the latter will be the worrying factor later in the year.

The Eurozone also saw a surge in the demand for goods and services, which was at its steepest for 15 years with the lockdown restrictions being eased to their lowest since October last year. This has had a particularly positive effect on service sector activity and close to record growth in the manufacturing sector, but employers are still having difficulty filling vacancies and experiencing record supply chain delays. The imbalance between supply and demand is pushing inflationary pressures sharply upwards, and how long this lasts is crucial to the long term stability of economies. Much like the UK, Europe is hoping for the supply of raw materials to come back in line with demand in short order.

In the US, the story is very similar to that of the UK and Europe with output expanding rapidly, supply chain disruption leading to soaring costs and backlogs of orders rising at the fastest rate on record. Again, there is mention that companies are unable to hire sufficient staff, this may be because employees are being pickier as to what jobs they want to do, or that they are making the most of federal and local government payments until they run out in July. Hence, the backlog of work as firms fail to meet demand. We wait to see how this pans out when the subsidies cease.

Portfolio Review

We have continued to maintain a diversified portfolio across a range of sectors and have a good proportion of the portfolio in non-sterling currencies. Turnover within the portfolio has remained low; we tend to have a buy and hold strategy for most of our fixed interest securities with most turnover coming from when we see portfolio investments redeem their bonds either at their scheduled repayment date or earlier if the opportunity arose. A good example of this would be Punch Taverns 7.75% 2025 bonds which was one of our largest positions and was recently called and repaid at par by the company.

Three of the new holdings in the top ten over the year are in positions that we have held for some time; namely One Savings Bank FRN, Raven Russia preference shares and Bracken Midco 8.875% 2023. The new holding in the top ten is Boparan Finance 7.625% 2025 which is a subsidiary of the 2 Sisters Food Group, one of the UK's largest diversified food manufacturers.

I mentioned in last year's report that the most notable investment negatively affected by COVID-19 issues was Matalan Finance where the company was badly affected by the lockdown and its bond price fell to 41 as at the end of June 2020. We believe that this security will recover, have remained holders throughout the year and have seen the bond price recover to 60 at our year end.

During the year we have also looked to take advantage of companies where we believed that their debt prices were undervalued; one example of this would be the French supermarket group Casino Guichard 3.992% Perpetual where we started buying last Autumn at around the 35/40 level and have been recently selling at 70.

The revenue account has seen earnings per share of 4.18p come in below our total dividend of 4.47p for the year. In past years we have been able to put significant sums into revenue reserves and we have modestly utilised these this year to ensure that the dividend is paid to shareholders. In my regular discussions with Shareholders, revenue and dividends are topics of crucial importance and the ability of any portfolio company to pay its coupon or expected dividend is one of the major indicators we follow.

Outlook

The future as always is difficult to predict. We have inflation rising and spreading from financial assets into the real economy, the prospect of tapering in the United States sooner rather than later, and in Europe the winding down of quantitative easing also looking near the top of the agenda as inflation levels are worrying Germany and France. We would expect to see larger issuance of debt by corporates spurred on by their investment bank advisors to lock in to the low rates whilst they last. For the UK economy a lot depends on the hope that inflation is a short lived entity and the shortage of staff in various industries is fulfilled by the unfortunate employees being made redundant when furlough is ceased, but there is definitely a danger that many will not want to work for the same remuneration they did previously. Finally supply chains need to

Investment Manager's Review

improve quickly as scarcity of product itself is leading to upward pressure on input and output prices. The next twelve months will hopefully see markets and economies coming more into line with each other, but there is a definite risk that this is not a smooth ride for either.

I will be working as usual over the forthcoming months to look after your portfolio and ensure that it is in the best possible position to stand against whatever lies ahead.

Ian "Franco" Francis
New City Investment Managers
16 September 2021

Classification of Investment Portfolio

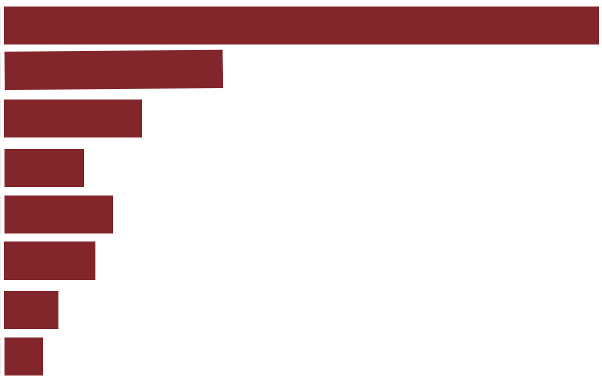
as at 30 June 2021

By Currency	2021 Total investments %	2020 Total investments %
Sterling	68	73
US dollar	22	19
Euro	9	7
Norwegian krone	1	1
Total investments	**100**	**100**

By Asset Class	2021 Total investments %	2020 Total investments %
Bonds	84	82
Equity shares	15	13
Convertible Bonds	1	5
Total investments	**100**	100

By Quotation	2021 Total investments %	2020 Total investments %
Listed/Quoted on a recognised investment exchange	99.75	96.2
Prices via direct broker quotes	0.25	3.8
Total investments	**100.0**	**100.0**

Classification of Investment Portfolio by Sector



As at 30 June	2021 Total investments %	2020 Total investments %
Financials	45.0	48.6
Energy	16.5	14.6
Industrials	10.4	9.4
Consumer Discretionary	6.0	7.5
Consumer Staples	8.2	7.1
Real Estate	6.9	6.2
Materials	4.1	4.4
Information Technology	2.9	2.2
Total Investments	100.0	100.0

Investment Portfolio

as at 30 June 2021

Company	Sector	Valuation £'000	Total Investments %
Virgin Money FRN PERP	Financials	13,765	5.3
Galaxy Finco Ltd 9.25% 31/07/2027	Financials	12,133	4.7
Shawbrook Group 31/12/2059 FRN	Financials	10,793	4.2
Onesavings Bank 31/12/2059 FRN	Financials	10,154	3.9
Boparan Finance 7.625% 30/11/2025	Consumer Staples	9,278	3.6
Aggregated Micro 8% 17/10/2036	Energy	8,838	3.4
Raven Russia 12% 31/12/2059	Real Estate	8,757	3.4
Just Group Plc 8.125% 26/10/2029	Financials	8,501	3.3
Co-Operative Fin 25/04/2029 FRN	Financials	8,466	3.3
Bracken Midco 8.875% 15/10/2023	Financials	7,703	3.0
Top ten investments		**98,388**	**38.1**
Just Group Plc 31/12/2059 FRN	Financials	6,675	2.6
American Tanker 7.75% 02/07/2025	Industrials	6,349	2.5
Rea Finance 8.75% 31/08/2025	Consumer Staples	6,318	2.5
Stonegate Pub 8.25% 31/07/2025	Consumer Discretionary	6,271	2.4
Algeco Fin 2 10% 15/08/2023	Industrials	5,268	2.0
VPC Specialty Lending Invest	Financials	5,040	2.0
Euronav Lux 7.5% 31/05/2022	Energy	4,664	1.8
Azerion Holdings 7.25% 28/04/2024	Information Technology	4,587	1.8
Matalan Finance 9.5% 31/01/2024	Consumer Discretionary	4,543	1.8
Virgin Money 31/12/2049	Financials	4,401	1.7
Top twenty investments		**152,504**	**59.2**
Welltec A/S 9.5% 01/12/2022	Energy	4,185	1.6
Deutsche Bank AG 30/05/2049 FRN	Financials	4,151	1.6
Euronav NV	Energy	4,092	1.6
Barclays Plc 29/12/2049 FRN	Financials	3,753	1.5
Bombardier Inc 7.5% 15/03/2025	Industrials	3,673	1.4
Lloyds Banking 29/12/2049 FRN	Financials	3,532	1.4
Hawk Debtco Ltd 10.5% 22/12/2024	Industrials	3,494	1.4
Rea Holdings Plc PREF	Consumer Staples	3,388	1.3
Enquest Plc 7% 15/10/2023	Energy	3,371	1.3
Diversified Energy Co Plc	Energy	3,205	1.2
Top thirty investments		**189,348**	**73.5**
Shamaran 12% 05/07/2023	Energy	3,172	1.2
Channel Islands Property Fund	Financials	3,000	1.2
RM Secured Direct Lending Plc	Financials	2,816	1.1
Tizir Ltd 9.5% 19/07/2022	Materials	2,661	1.0
Coburn Resources 12% 20/03/2026	Materials	2,641	1.0
SB Holdco Plc 13/07/2022 FRN	Consumer Discretionary	2,597	1.0
First Quantum 7.5% 01/04/2025	Materials	2,556	1.0
Yew Grove REIT plc	Real Estate	2,498	1.0
HDL Debenture 10.375% 31/07/2023	Financials	2,352	0.9
Lloyds Banking 29/12/2049 FRN	Financials	2,143	0.8
Top forty investments		**215,784**	**83.7**

Company	Sector	Valuation £'000	Total Investments %
Borealis Finance 7.5% 16/11/2023	Industrials	2,085	0.8
Doric Nimrod Air Three Ltd	Industrials	1,924	0.8
Oaknorth Bank 01/06/2028 FRN	Financials	1,900	0.8
AEW UK REIT plc	Real Estate	1,862	0.7
Arrow Bidco Llc 9.5% 15/03/2024	Consumer Discretionary	1,838	0.7
Siccar Point Energy 9% 04/03/2026	Energy	1,762	0.7
Independent Oil 20/09/2024 FRN	Energy	1,623	0.7
NewRiver REIT plc	Real Estate	1,609	0.6
Hurricane Energy 7.5% 24/07/2022	Energy	1,560	0.6
Gran Colombia 8.25% 30/04/2024	Materials	1,522	0.6
Top fifty investments		**233,469**	**90.7**
Casino Guichard 31/01/2049 FRN	Industrials	1,518	0.6
Petrotal Corp 12% 16/02/2024	Energy	1,493	0.6
Otiga Grp As 08/07/2022 SR	Consumer Staples	1,431	0.6
Secured Income Fund Plc	Financials	1,283	0.5
Kent Global Plc 10% 28/06/2026	Energy	1,277	0.5
Regional REIT Ltd	Real Estate	1,274	0.5
Palace Capital Plc	Real Estate	1,260	0.5
Navig Topco Holding 12% 03/05/2023	Industrials	1,196	0.4
Altice Financing 7.5% 15/05/2026	Information Technology	1,132	0.4
Gaming Innovation 11/06/2024 FRN	Information Technology	1,110	0.4
Top sixty investments		**246,443**	**95.7**
Tufton Oceanic Assets Ltd	Financials	1,107	0.5
House Of HR 7.5% 15/01/2027	Industrials	1,096	0.4
Just Group Plc	Financials	932	0.4
Harbour Energy Plc	Energy	900	0.3
Navigator Holdings 8% 10/09/2025	Energy	757	0.3
Croma Security Solutions Group	Information Technology	700	0.3
Nt Rig Holdco 12% 20/12/2021	Financials	633	0.2
R.E.A Holdings Plc 7.5% 30/06/2022	Consumer Staples	622	0.2
Hoist Finance AB 31/12/2060 FRN	Financials	578	0.2
Downing Renewables & Infrastructure	Real Estate	495	0.2
Top seventy investments		**254,263**	**98.7**
Other investments (18)		3,204	1.3
Total investments		**257,467**	**100.0**

Notes:

CV – Convertible Bond
FRN – Floating Rate Note
PERP – Perpetual
PREF – Preference Shares
REIT – Real Estate Investment Trust

Ten Largest Holdings

	Valuation 30 June 2020 £'000	Purchases £'000	Sales £'000	Revaluation gain/(loss) £'000	Valuation 30 June 2021 £'000
Virgin Money FRN PERP A British banking company concentrating on UK Retail and SME regional banking services.	9,945	1,373	–	2,447	13,765
Galaxy Finco Ltd 9.25% 31/07/2027 A specialist provider of warranties for consumer electric products.	10,916	–	–	1,217	12,133
Shawbrook Group 7.875% FRN PERP A British multinational banking and financial services company.	7,556	440	–	2,797	10,793
OneSavings Bank Plc 9.125% FRN PERP A British banking company specialising in residential, buy to let and commercial mortgages.	5,359	3,790	–	1,005	10,154
Boparan Finance 7.625% 30/11/2025 The Company was formed for the purpose of issuing debt securities to repay existing credit facilities, refinance indebtedness, and for acquisition purposes.	–	10,029	–	(751)	9,278
Aggregated Micro 8% 17/10/2036 A British company using small scale, established technologies to convert wood and waste into energy in the form of heat and electricity	7,081	1,469	–	288	8,838
Raven Russia 12% 31/12/2059 A property investment company specialising in commercial property in Russia.	4,513	3,820	–	424	8,757
Just Group plc 8.125% 26/10/2029 A British company specialising in retirement products and services.	6,597	–	–	1,904	8,501
Co-Operative Finance 25/04/2029 FRN A retail and commercial bank in the United Kingdom.	6,686	746	–	1,034	8,466
Bracken Midco 8.875% 15/10/2023 A special purpose entity formed for issuing debt securities to repay existing credit facilities, refinance indebtedness, and for acquisition purposes.	4,465	2,031	–	1,207	7,703
	63,118	23,698	–	11,572	98,388

Principal Risks and Uncertainties and Risk Mitigation

Risks are inherent in the investment process, but it is important that their nature and magnitude are understood so that risks can be identified and either avoided or controlled. The Board has established a detailed framework to manage the key risks that the business is exposed to, with associated policies and processes devised to mitigate or control those risks.

Principal risks and mitigations are discussed regularly at Board and Audit Committee meetings. At the meeting held in June 2021 the Board discussed risk appetite and considered whether principal risks were increasing, decreasing or static including the ongoing impact of COVID-19. The Board also considered any new or emerging risks.

The principal risks and mitigating factors faced by the Company are set out below.

Risk	Description	Controls
Dividend and earnings risk	The earnings that underpin the amount of dividends declared and future dividend growth are generated by the Company's underlying portfolio. One or more of the following factors could adversely affect the Company's earnings and, thereby, its ability to declare a dividend: • The persistence of lower interest rates. • A contraction of available investment opportunities suitable for the Company, given its investment objective and its policy. • The persistence of adverse market conditions or government intervention during a macro-economic crisis resulting in cuts to dividend income. • Adverse changes to the tax treatments applicable to the Company's stream of investment and dividend income. This risk is heightened by the ongoing economic impact of COVID-19.	The Board has engaged with CQS, the Investment Manager, to manage the Company's portfolio and therefore depends upon the Investment Manager to construct an appropriate portfolio that will produce income allowing the Company to meet its dividend target. The Board monitors the implementation of the investment strategy, reviewing the performance of the Investment Manager on an ongoing basis and receiving a formal presentation from the Investment Manager on a quarterly basis. The Board receives and reviews detailed income forecasts prepared by the Investment Manager and Administrator at each Board meeting and when the quarterly dividends are declared. The Company holds revenue reserves, as at 30 June 2021, of £16,381,000, which could be used for the maintenance of the Company's dividend target in adverse market conditions.
Market risk leading to a loss of share value	The Company's assets consist principally of listed fixed interest securities and equities. Its greatest risks are consequently market related, with exposure to movements in the prices of the Company's investments and the loss that the Company might suffer through holding investments in the face of negative market movements. A downturn in capital markets could lead to a loss in value of the Company's shares, eroding the premium and causing the shares to trade at a discount. This risk is heightened by the ongoing economic impact of COVID-19.	The Board relies upon the research capabilities of the Investment Manager and the people it employs that can use their expertise to build a portfolio, utilising diversification, to mitigate market risk to the extent possible. The Board monitors the implementation of the investment strategy and reviews the performance of the Investment Manager on an ongoing basis and receives a formal presentation from the Investment Manager on a quarterly basis. At this time, the Board reviews the performance of the Company's investments, including both realised and unrealised gains and losses. The Company has generally traded at a premium to Net Asset Value. Any reduction in the premium or move to a discount is discussed with the Investment Manager and Brokers, with a view to taking action if considered appropriate. The Investment Manager and Broker hold regular shareholder meetings through which investor sentiment can be gauged.
Key person risk	Performance of the Company may be negatively affected by a change in the fund management team within the Investment Manager.	Whilst the lead fund manager is responsible for day to day portfolio management, an Investment Committee at the Investment Manager also decides key stock selection. The Board monitors and reviews the performance of the Investment Manager on an ongoing basis and receives a formal presentation from the Investment Manager on a quarterly basis. The Management Engagement Committee of the Company formally reviews the performance of the Investment Manager annually.
Gearing risk	A fall in the value of the underlying investments could adversely affect the Company's level of gearing and exacerbate the decline in value. It could also result in a breach of loan covenants.	Gearing levels and compliance with loan covenants are monitored by the Administrator and the Investment Manager on a monthly basis. The Board reviews compliance with the gearing levels and loan covenant compliance at regular Board meetings. The Board sets the gearing limits. Gearing will not exceed 25% of Shareholders' funds at the time of borrowing.

Risk	Description	Controls
Operational risk ↓	The Company relies upon the services provided by third parties and is reliant on the control systems of the Investment Manager and the Company's other service providers. Failures at these third parties could adversely impact the security and/or maintenance of, inter alia, the Company's assets, dealing and settlement procedures, and accounting records depend on the effective operation of these systems. Following a successful transfer to our new administrator, custodian and depositary the Board consider operational risks to have reduced.	The operating effectiveness of third party service providers is regularly tested and monitored and reported on at each Board meeting. The Audit and Risk Committee receives an ISAE 3402 report (report on the description of controls placed in operation, their design and operating effectiveness) on Fund Administration. The Investment Manager delivers a risk based internal audit plan which covers different areas of its operations that are subject to internal audit, including front, middle and infrastructure audits. Any areas of concern relevant to the Company are discussed with the Audit and Risk Committee when it meets.
Regulatory risk ↔	The breach of existing regulatory rules, or failing to adopt changes in regulatory rules in a timely manner, which could lead to a suspension of the Company's stock exchange listing or financial penalties.	The Company Secretary monitors the Company's compliance with the Listing Rules of the UK Listing Authority and the Company's Compliance Officer with the regulatory rules applicable to Jersey funds. Compliance with the Listing Rules is reviewed by the Directors at each Board meeting and the Board receives a quarterly report from the Company's Compliance Officer. The Administrator is regulated by the Jersey Financial Services Commission.
Political risk ↑	Political developments could affect the environment in which the Company operates and negatively impact the value of the Company's investments and/or demand for our shares. Following the end of the Brexit transition period, some uncertainty and political tensions remain. Brexit continues to impact supply chains, along with Covid-19, and there is as yet no agreement covering financial services.	Political developments are closely monitored and considered by the Board. The Board monitors closely the impact of Brexit and changes to the tax arrangements applicable to the Company. Whilst there is considerable uncertainty at present, the Board will continue to monitor developments as they occur and liaise with the Investment Manager on how to reduce downside risk arising from these developments and take advantage of any appropriate opportunities.
Financial risk ↔	The Company's investment activities expose it to a variety of financial risks that include market price risk, foreign currency risk, interest rate risk, liquidity risk and credit risk.	Further details of these risks and the ways in which they are managed are disclosed in notes 16 to 21 of the financial statements.
Market Demand ↑	Demand for shares in the Company declines due to failure to meet investors' objectives. This could be down to a failure to maintain dividend yield or net asset value of shares, or failure to meet changing investors' criteria on sustainable investment.	The Investment Manager regularly meets with investors to discuss their objectives and some of those meetings are attended by the Chair of the Board. We also receive frequent feedback from our Brokers on their interactions with investors. The Board monitors the share price and share price premium and any signs of demand reduction are discussed so that appropriate action can be taken. Periodically the Board holds a strategy meeting in which the investment objective and strategy is discussed.
Cyber risk ↑	Cyber risk has previously been monitored as an element of operational risk, but given the heightened risk to information security as cyber criminals become more sophisticated, and exacerbated by the increased reliance on electronic communication and storage of data, the Board now consider cyber risk and data security as a principal risk in its own right.	Due to the structure of our business model, all cyber risk rests with our service providers. Our service providers are highly regulated entities, nevertheless we have increased monitoring and request annual confirmations that cyber risk is appropriately controlled, and no significant incidents impacting our Company have occurred.

Emerging risks

During Board discussions on principal risks and uncertainties, the Board considered any risks that were not an immediate threat but could arise in the longer term and have significant impact on the ability of the Company to continue to meet its objectives. Areas discussed include longer term impacts of climate change on the Company's portfolio and returns, and any prolonged economic impact of COVID-19 on different sectors of the economy. The Board regularly discusses these with the Investment Manager, and receives feedback based on the Investment Manager's research, and discussions with Shareholders and Brokers. The Investment Manager's ESG policy was reviewed and critiqued during the year, and the Board will continue to assess these emerging risks on a regular basis.

Stakeholders – Section 172 Statement and Principal Decisions

Through adopting the AIC Code, the Board acknowledges its duty to comply with section 172 of the UK Companies Act 2006 to act in a way that promotes the success of the Company for the benefit of its members as a whole, having regard to (amongst other things):

a) consequences of any decision in the long-term;
b) the interests of the Company's employees;
c) need to foster business relationships with suppliers, customers and others;
d) impact on community and environment;
e) maintaining reputation; and
f) act fairly as between members of the Company.

Information on how the Board has engaged with its stakeholders and promoted the success of the Company, through the decisions it has taken during the year, whilst having regard to the above, is outlined below. The Company has no employees.

Stakeholder	How the Board engages
Shareholders	Shareholders provide the capital to allow the Company to be in existence and to pursue its purpose and strategy. Accordingly, Shareholder support is essential to the continued survival and success of the Company. The Board recognises that it is important to maintain appropriate contact with major Shareholders to understand their issues and concerns. The Board engages with its shareholders by: 1) Publishing daily NAV announcements 2) Publishing monthly fact sheets 3) Publishing half yearly and annual reports and accounts 4) Making themselves available to meet major Shareholders as requested 5) Obtaining Shareholder feedback received via the Investment Manager and Corporate Broker 6) Making themselves available to questions from Shareholders at the Annual General Meeting
Service providers	As a Company with no employees the Board is reliant on third party service providers to help the Company operate in a compliant and efficient manner. The Board engages with its service providers by: 1) Receiving detailed written and verbal reports at board meetings 2) Regular communication with representatives via telephone and email to discuss ad hoc matters 3) Undertaking an annual review via the Management Engagement Committee
The wider community and the environment	As a responsible corporate citizen the Company recognises that its operations have an environmental footprint and impact on wider society. The Board fully supports the growing importance placed on Environmental, Social and Corporate Governance ("ESG") factors when asking the Company's Investment Manager to deliver against the Company's objectives. The Board has requested that the Investment Manager take into account the broader social, ethical and environmental issues of companies within the Company's portfolio, acknowledging that companies failing to manage these issues adequately run a long term risk to the sustainability of their businesses. The Investment Manager has stated that they view ESG factors as a key driver of financing costs, valuations and performance, while also being capable of acting as a lever to shape and influence the world for generations to come. The integration and assessment of ESG factors is a crucial part of this commitment, and a key factor in the Investment Manager's decision-making. Through embedding ESG into its investment process the Investment Manager seeks to enhance its ability to identify value, investment opportunities and, critically, to generate the best possible returns for its stakeholders. The Investment Manager is a signatory to the United Nations PRI, fully supporting all Principles for Responsible Investment.

Principal decisions

The table below sets out principal decisions taken by the Board during the year which have the greatest impact on the Company's long term success. The Board considers the factors outlined under section 172 and the wider interests of stakeholders as a whole in all decisions it takes on behalf of the Company.

Principal decision	Stakeholder interests
Review of dividend policy	The Board recognises the importance Shareholders place on the Company's dividend policy and is cognisant of the need to ensure the viability of the dividend. It was agreed it was in the best interests of the Company and Shareholders to increase the dividend by 0.01p in the year under review.
Adoption of ESG policy	The Board recognises that ESG considerations are a vital and growing area of focus in the investment industry, and is committed to adopt suitable policies in this regard. The Board has reviewed and critiqued the approach adopted by the Investment Manager, and it was decided to agree this approach in respect of the investment process for the Company. Further details of the Company's approach to ESG can be found on the Company website (https://ncim.co.uk/wp/wp-content/uploads/2021/03/CQS-New-City-High-Yield-ESG-Statement-Final-March-2021.pdf) and through the Company page on the AIC website (https://www.theaic.co.uk/esg-and-investment-companies)

Strategic Review

Introduction

This review is part of a Strategic Report being presented by the Company and is designed to provide information primarily about the Company's business and results for the year ended 30 June 2021. It should be read in conjunction with the Statement from the Chair on page 3 and the Investment Manager's Review on page 5, which give a detailed review of the investment activities for the year and look to the future.

Principal Activity and Status

The Company is a closed-ended investment company and was incorporated with limited liability in Jersey under the Companies (Jersey) Law 1991 on 17 January 2007, with registered number 95691. In addition, the Company constitutes and is regulated as a collective investment fund under the Collective Investment Funds (Jersey) Law 1988 ("the Law").

The Company's ordinary shares are listed on the Official List of the UK Listing Authority and admitted to trading on the Main Market of the London Stock Exchange.

Purpose and Strategy

The Company's purpose is stated on the inside front cover of this report.

Investment Policy

The Company invests predominantly in fixed income securities, including, but not limited to, preference shares, loan stocks, corporate bonds (convertible and/or redeemable) and government stocks. The Company also invests in equities and other income yielding securities.

Exposure to higher yielding securities may also be obtained by investing in other closed-ended investment companies and open-ended collective investment schemes.

There are no defined limits on securities and accordingly the Company may invest up to 100% of total assets in any particular type of security.

There are no defined limits on countries, size or sectors, therefore the Company may invest in companies regardless of country, size or sector and, accordingly, the Company's portfolio is constructed without reference to the composition of any stock market index or benchmark.

The Company may, but is not obliged to, invest in derivatives, financial instruments, money market instruments and currencies for the purpose of efficient portfolio management. The Company may acquire securities that are unlisted or unquoted at the time of investment but which are about to be convertible, at the option of the Company, into securities which are listed or traded on a stock exchange. The Company may continue to hold securities that cease to be listed or traded if the Investment Manager considers this appropriate. The Board has established a maximum investment limit in this regard of 10% (calculated at the time of any relevant investment) of the Company's total assets. In addition, the Company may invest up to 10% (calculated at the time of any relevant investment) of its total assets in other securities that are neither listed nor traded at the time of investment.

The Company will not invest more than 10% (calculated at the time of any relevant investment) of its total assets in other collective investment undertakings (open-ended or closed-ended).

The Company may not invest more than 7.5% of its total investments in the same investee company and that this be limited to no more than 3 investee companies with a maximum investment limit of 5% thereafter. In addition, there is a maximum investment limit whereby, at the time of investment, the Company may not invest more than 5% of its total investments in any one security.

The Company uses gearing and the Board has set a current limit that gearing will not exceed 25% of Shareholders' funds at the time of borrowing. This limit is reviewed from time to time by the Board.

The Investment Manager expects that the Company's assets will normally be fully invested. However, during periods in which changes in economic circumstances, market conditions or other factors so warrant, the Company may reduce its exposure to securities and increase its positions in cash, money market instruments and derivative instruments in order to seek protection from stock market falls or volatility.

Investment Approach

Investments are typically made in securities which the Investment Manager has identified as undervalued by the market and which it believes will generate above average income returns relative to their risk, thereby also generating the scope for capital appreciation. In particular, the Investment Manager seeks to generate capital growth by exploiting the opportunities presented by the fluctuating yield base of the market and from redemptions, conversions, reconstructions and take-overs.

Performance Measurement and Key Performance Indicators (KPIs)

The Board uses a number of performance measures to monitor and assess the Company's success in meeting its objectives and to measure its progress and performance. The key performance indicators are as follows:

- **Dividend Yield and Dividend Cover**
  It is intended that the Company will pay four quarterly dividends each year and accordingly the Board reviews the Company's dividend yield and dividend cover on a quarterly basis. For the year ended 30 June 2021, the Company's dividend yield was 8.16% (30 June 2020: 9.41%) based upon a share price of 54.80 pence (bid price) as at 30 June 2021 (30 June 2020: 47.40 pence) and its dividend cover was 0.94x (30 June 2020: 1.03x).
- **Revenue Earnings and Dividends per share**
  The Company has opted to follow the AIC's Statement of Recommended Practice: Financial Statements of Investment Trusts and Venture Capital Trusts (the "AIC SORP") and, in accordance with the provisions of the AIC SORP, distinguishes its profits derived from revenue and capital items. The Company declares and pays its dividend out of only the revenue profits of the Company. The revenue earnings, whether generated this year or in previous years and held in revenue reserves, represent the total available funds that the Directors are able to make a dividend payment from. The Board reviews revenue forecasts on a quarterly

basis in order to determine the quarterly dividend. In respect of the current financial year, the Company declared dividends of 4.47 pence per ordinary share out of revenue earnings per share of 4.18 pence per share.

- Ongoing Charges
  The ongoing charges ratio represents the Company's management fee and all other operating expenses incurred by the Company expressed as a percentage of the average Shareholders' funds over the year. The Board regularly reviews the ongoing charges and monitors all Company expenses. The ongoing charges ratio for the year ended 30 June 2021 was 1.25% (2020: 1.19%).

The Board measures the Company's performance by reviewing the KPIs against their expectations of performance from their knowledge of the industry sector.

These KPIs fall within the definition of 'Alternative Performance Measures' (APMs) under guidance issued by the European Securities and Markets Authority. Additional information explaining how these are calculated is set out in the Glossary.

Going Concern

The Company does not have a fixed winding-up date and, therefore, unless Shareholders vote to wind-up the Company, Shareholders will only be able to realise their investment through the secondary market.

At each Annual General Meeting of the Company, Shareholders are given the opportunity to vote on an ordinary resolution to continue the Company as an investment company. If any such resolution is not passed, the Board will put forward proposals at an extraordinary general meeting to liquidate or otherwise reconstruct or reorganise the Company. Given the performance of the Company, input from the Company's major Shareholders and its broker, the Board considers it likely that Shareholders will vote in favour of continuation at the forthcoming Annual General Meeting.

The Company's existing loan facility as detailed on page 48 is due to expire on 18 December 2021 after which it is anticipated the Company will take out a new facility on comparable terms. After making enquiries of the Investment Manager, and having considered the Company's investment objective, nature of the investment portfolio, loan facility, expenditure projections and impact of COVID-19 on the Company, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements, notwithstanding that the Company is subject to an annual continuation vote as described above.

Viability Statement

In accordance with the provisions of the AIC Code, the Directors have assessed the viability of the Company over a period longer than the 12 months required by the 'Going Concern' provision. The Board conducted this viability review for a period of three years. The Board continues to consider that this period reflects the long term objectives of the Company, being a Company with no fixed life, whilst taking into account the impact of uncertainties in the markets.

Whilst the Directors do not expect there to be any significant changes to the current principal and emerging risks facing the Company, certain risks have increased as a result of COVID-19. Despite these increased risks, the Directors believe that the Company has sufficient controls in place to mitigate those risks. Furthermore, the Directors do not envisage any change in strategy which would prevent the Company from operating over the three year period. This is based on the assumption that there are no significant changes in market conditions or the tax and regulatory environment that could not reasonably have been foreseen. The Board also considers the annual continuation vote should not be a factor to affect the three year period given the strong demand seen for the Company's shares.

In making this statement the Board: (i) considered the continuation vote to be proposed at the Annual General Meeting which the Board considers will be voted in favour of by Shareholders; and (ii) carried out a robust assessment of the principal and emerging risks facing the Company. These risks and their mitigations are set out on pages 11 to 12.

The principal risks identified as most relevant to the assessment of the viability of the Company were those relating to potential under-performance of the portfolio and its effect on the ability to pay dividends. When assessing these risks the Directors have considered the risks and uncertainties facing the Company in severe but reasonable scenarios, taking into account the controls in place and mitigating actions that could be taken.

When considering the risk of under-performance, a series of stress tests was carried out including in particular the effects of any substantial future falls in investment value on the ability to re-pay and re-negotiate borrowings, potential breaches of loan covenants and the maintenance of dividend payments.

The Board considered the Company's portfolio and concluded that the diverse nature of investments held contributes to the stability and liquidity along with flexibility to be able to react positively to market and political forces beyond the Board's control.

The Board also considered the impact of potential regulatory changes and the control environment of significant third party providers, including the Investment Manager.

The Scotiabank loan facility is due to expire on 18 December 2021. It is anticipated a new facility on comparable terms will be negotiated prior to this date.

Based on the Company's processes for monitoring revenue and costs, with the use of frequent revenue forecasts, and the Investment Manager's compliance with the investment objective and policies, the Directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due for a period of three years from the date of approval of this Report.

Social, Community, Human Rights, Employee Responsibilities and Environmental Policy

The Directors recognise that their first duty is to act in the best financial interests of the Company's Shareholders and to achieve good financial returns against acceptable levels of risk, in accordance with the objectives of the Company.

In asking the Company's Investment Manager to deliver against these objectives, they have also requested that the Investment Manager take into account the broader social, ethical and environmental issues of companies within the Company's portfolio, acknowledging that companies failing to manage these issues adequately run a long term risk to the sustainability of their businesses.

Greenhouse Gas Emissions

As the Company is a closed-ended investment company, which has no employees, its own impact on the environment is minimal and therefore the Company has no Greenhouse Gas Emissions to report from its operations for the year ended 30 June 2021 and prior year, nor does it have responsibility for any other emissions producing sources (including those within the underlying investment portfolio).

However, the Board recognises its impact on the environment, including greenhouse gas emissions, through the underlying portfolio companies which it invests in. The Board has requested that ESG factors are incorporated into the Company's investment strategy as further detailed on page 14.

Modern slavery

The Company would not fall into the scope of the UK Modern Slavery Act 2015 (as the Company does not have any turnover derived from goods and services) if it was incorporated in the UK. Furthermore, as a closed-ended investment company, the Company has a non-complex structure, no employees and its supply chain is considered to be low risk given that suppliers are typically professional advisers based in either the Channel Islands or the UK. Based on these factors, the Board determined that it is not necessary for the Company to make a slavery and human trafficking statement.

By Order of the Board

Caroline Hitch

Chair

16 September 2021

Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU 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 Company and of its profit or loss for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with Companies (Jersey) Law, 1991. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. The financial statements are published on the www.ncim.co.uk website, which is a website maintained by the Company's Investment Manager. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair and balanced view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Strategic Report and Directors' report include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

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

On behalf of the Board

Caroline Hitch
Chair

16 September 2021

Board of Directors and Investment Manager

Caroline Hitch

Independent Non-Executive Chair

Appointed: March 2018

Skills:
Caroline has extensive fund management skills including specialist fixed income portfolios. She has a deep understanding of investment risk and risk management both as it applies to individual assets and to overall portfolio construction. She developed her skills of investment trust board governance through many years of managing regulated funds, reporting to their boards and then becoming a board member (and now chair) herself.

Experience:
Caroline joined the board after working in the financial services industry since the early 1980s, mostly with the HSBC group. Her experience includes Head of Wealth Portfolio Management at HSBC Global Asset Management (UK) Ltd. with investment responsibility for their flagship multi asset retail funds. Prior roles included specialisation in institutional fixed income portfolio management. She has worked in London, Jersey, Monaco and Hong Kong.

Committee membership:
Audit and Risk Committee
Management Engagement Committee
Nomination Committee
Remuneration Committee

Remuneration: £40,000 per annum

Public company directorships: Schroder Asian Total Return Investment Company plc, Aberdeen Standard Equity Income Trust plc

Shared Directorships with any other Fund Directors: None

Duncan Baxter

Senior Independent Non-Executive Director and Chair of the Management Engagement Committee

Appointed: July 2015

Skills:
Duncan has a broad knowledge of the finance sector gained from holding senior leadership positions across a number of International Banks and Trust companies. Having also worked on investment company boards, some of which in the position of Chair, Duncan has had exposure to equity raises, discount management.

Experience:
Duncan is a retired senior banker with over 25 years' experience of international banking, latterly as Managing Director of Swiss Bank Corporation/UBS in Jersey. Since leaving Swiss Bank/UBS in the late 1990s, Duncan has undertaken a number of consultancy projects for international banks, trust and investment management companies, plus acted on a number of investment company boards. He has experience of stewardship and investment in several investment companies over twenty years and in addition as a non-executive director of a number of operating public companies. Duncan is a Jersey resident.

Committee membership:
Audit and Risk Committee
Management Engagement Committee
Nomination Committee
Remuneration Committee

Remuneration: £27,500 per annum

Public company directorships: None

Shared Directorships with any other Fund Directors: None

Wendy Dorman

Independent Non-Executive Director and Chair of the Audit and Risk Committee

Appointed: March 2016

Skills:
Wendy is a Chartered Accountant with skills in tax, audit and commercial mainly focused on the investment fund sector. Her extensive experience chairing audit committees of public listed entities gives her the requisite leadership skills in addition to those of accounting and governance.

Experience:
Wendy began her career in audit and assurance before specialising in taxation. She has 25 years' experience in tax within the financial services industry. Wendy's career encompassed time in practice and in industry, based initially in London and later in Jersey. She retired as partner in charge of the PwC Channel Islands tax practice in June 2015. Wendy served as President of the Jersey Society of Chartered and Certified Accountants from 2008 to 2010 and as Chair of the Jersey branch of the Institute of Directors from 2014 to 2016. Wendy is a Jersey resident.

Committee membership:
Audit and Risk Committee
Management Engagement Committee
Nomination Committee
Remuneration Committee

Remuneration: £34,000 per annum

Public company directorships:
3i Infrastructure plc
Jersey Electricity Plc

Shared Directorships with any other Fund Directors: None

John Newlands

Independent Non-Executive Director and Chair of the Remuneration Committee

Appointed: October 2017

Skills:
John's 20-plus years career as an investment company analyst, with a particular focus upon the UK wealth management sector, gives the Board an important insight into the investment requirements and processes of the types of investor, whether private or institutional, most likely to consider the Company for inclusion in their portfolios. He is also skilled in the assessment of potential peer group funds, both in terms of relative performance and other quantitative data and in the increasing focus upon governance and stewardship matters as pre-requisites for investment.

Experience:
John joined the Board shortly after working in the managed funds sector since the mid-1990s, the last ten years being spent as Head of Investment Companies Research at Brewin Dolphin Limited. He was a member of the Association of Investment Companies Statistics' Committee from 2000 to 2017 and is a member of the Citywire Investment Trust Awards Panel. He has an MBA from Edinburgh University Business School and is a Chartered Electrical Engineer dating to his prior career as a Weapon Engineer Officer in the UK Royal Navy. John is a member of the Investment Committee of Durham Cathedral. He has written four books about financial history, the most recent charting the history of Dunedin Income Growth Investment Trust.

Committee membership:
Audit and Risk Committee
Management Engagement Committee
Nomination Committee
Remuneration Committee

Remuneration: £27,500 per annum

Public company directorships: TOC Property Backed Lending Trust plc, Gabelli Merger Plus Trust plc

Shared Directorships with any other Fund Directors: None

Ian Cadby

Independent Non-Executive Director and Chair of the Nomination Committee

Appointed: January 2017

Skills:
Ian is a Chartered Fellow of the Chartered Institute for Securities & Investment. His extensive governance experience on public and private company boards as well as a long career as a regulated person (CF3, CF2 and CF1 controlled functions) in the asset management industry gives him a broad and relevant skill set for the Board.

Experience:
Ian has over 30 years' experience within the financial services industry in London, Hong Kong and Jersey with a strong career emphasis on equity and equity derivative trading, risk management, corporate governance and board strategy. Ian is a Jersey resident.

Committee membership:
Audit and Risk Committee
Management Engagement Committee
Nomination Committee
Remuneration Committee

Remuneration: £27,500 per annum

Public company directorships:
Aberdeen Asian Income Fund Limited

Shared Directorships with any other Fund Directors: None

Investment Manager

The Company appointed New City Investment Managers ("NCIM") as its Investment Manager with effect from launch. On 1 October 2007, NCIM joined the CQS Group, a global diversified asset manager running multiple strategies with, as at 30 June 2020, US$17.7 billion assets under management (including mandates with discretionary management, sub-investment discretionary management, investment advice, collateral management and intermediation). In 2014, NCIM's rights and obligations under the investment management agreement between the Company and NCIM were then transferred to CQS Cayman Limited Partnership ("CQS"). Consequently, CQS became the Company's Investment Manager but, with the agreement of the Board, delegated that function to CQS (UK) LLP Trading Limited as NCIM.

With effect from 18 September 2019 the Company entered into a new investment management agreement to appoint CQS (UK) LLP as its Investment Manager. The previous investment management agreement with CQS was terminated.

Ian Francis has day to day responsibility for managing the Company's portfolio and is supported by the CQS team.

He joined the NCIM team in 2007. He has over 40 years' investment experience, primarily in the fixed interest and convertible spheres, and his career has included Collins Stewart, West LB Panmure, James Capel and Hoare Govett.

Alternative Investment Fund Managers Directive ("AIFMD")

The Company has appointed CQS (UK) LLP, a subsidiary of CQS, as the Company's alternative investment fund manager ("AIFM"). The AIFM has received its approval from the FCA to act as AIFM of the Company, your Company is therefore fully compliant. An additional requirement of the AIFMD is for the Company to appoint a depositary, which will oversee the custody and cash arrangements and other AIFMD required depositary responsibilities. The Board has appointed BNP Paribas Securities Services S.C.A. Jersey Branch to act as the Company's depositary.

As part of the process the Investment Management Agreement has been updated and builds in the regulatory requirements arising as a result of the appointment of the AIFM.

Further AIFMD disclosures are shown on page 63.

Directors' Report

The Directors present their report and the audited financial statements for the year ended 30 June 2021.

Results and Dividends

Details of the Company's results and dividends are shown on page 2 of this report.

Dividend Policy

Subject to market conditions and the Company's performance, financial position and financial outlook, it is the Directors' intention to pay an attractive level of dividend income to Shareholders on a quarterly basis. The Company intends to continue to pay all dividends as interim dividends. A resolution to approve this dividend policy will be proposed at the Annual General Meeting.

Bank Facilities

The Company has a short term unsecured loan facility with Scotiabank Europe Plc ("Scotiabank"). As at the year end the unsecured loan facility had a limit of £35 million of which £33 million was drawn down.

The Company's existing loan facility is due to expire on 18 December 2021 after which it is anticipated the Company will take out a new facility on comparable terms.

Share Capital

As at 1 July 2020 there were 432,851,858 ordinary shares in issue. The Company issued a further 12,200,000 ordinary shares in the year to 30 June 2021. Full details of these transactions are shown in note 13 on page 49 of this report.

Following these allotments there are now 445,051,858 ordinary shares in issue as at 30 June 2021. A further 10,100,000 shares have been issued since the year end.

Acquisition of own shares

At the 2020 AGM, held on 3 December 2020, the Directors were granted authority to repurchase 65,401,649 ordinary shares (being equal to 14.99% of the aggregate number of ordinary shares in issue at the date of the AGM) for cancellation, or to be held as treasury shares. This authority, which has not been used, will expire at the upcoming AGM. The Directors intend to seek annual renewal of this authority from Shareholders.

Directors' shareholdings

The Directors who held office at the year end and their interests in the ordinary shares of the Company were as follows:

	At 30 June 2021	At 30 June 2020
D A H Baxter	195,127	195,127
I Cadby	25,000	25,000
W Dorman	112,000	112,000
C Hitch	170,000	130,000
J Newlands	10,000	10,000

On 7 August 2020, Duncan Baxter disposed of 195,127 ordinary shares through his pension fund and subsequently, on 10 August 2020 and 11 August 2020, purchased 97,564 and 97,563 ordinary shares respectively through his private investment company. His total ownership of ordinary shares following these transactions was 195,127.

There were no other changes in the ordinary share holdings of the Directors between 30 June 2021 and 16 September 2021.

Substantial Interests in Share Capital

As at 30 June 2021, the Company had been notified in accordance with Chapter 5 of the UK Listing Authority's Disclosure Guidance and Transparency Rules (which covers the acquisition and disposal of major shareholdings and voting rights), of the following Shareholders that had an interest of greater than 5% in the Company's issued share capital.

	Percentage of total voting rights (%)
Brewin Dolphin Limited	9.46

Between 1 July 2021 and 16 September 2021 the Company received no further notifications.

Investment Management

As part of its strategy for achieving its objectives, the Board has delegated the management of the investment portfolio to CQS (UK) LLP with Ian Francis as the lead fund manager. Further details are provided on note 23 to the financial statements.

At each Board meeting, the Board receives a presentation from the Investment Manager which includes a review of investment performance, portfolio activity and market outlook. The stock selection emphasis adopted by the Investment Manager is on each holding's unique characteristics rather than any benchmark weightings.

Appointment of the Manager

The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis and a formal review is conducted annually by the Management Engagement Committee. As part of the annual review the Management Engagement Committee considers the continuity of the team, the investment process and the results achieved to date.

The Board believes that the continuing appointment of CQS as AIFM and Investment Manager as set out on page 44 is in the interests of Shareholders as a whole.

Administration Services

BNP Paribas Securities Services S.C.A., Jersey Branch ("BNPP") were appointed as the Company Secretary and Administrator on 28 November 2019, in place of R&H Fund Services (Jersey) Limited and Maitland Administration Services (Scotland) Limited; and appointed as the Company's custodian, bankers and depositary in place of HSBC Bank PLC.

Independent Auditor

KPMG LLP were appointed as auditor to the Company in 2007. Following a tender process in 2016 KPMG LLP was subsequently reappointed and remained in office until 17 June 2019. Following the resignation of KPMG LLP on 17 June 2019, KPMG Channel Islands Limited was appointed as the Company's auditor effective 17 June 2019.

A resolution to re-appoint KPMG Channel Islands Limited as the Company's auditor will be proposed at the Company's 2021 Annual General Meeting.

Delegation of Responsibilities and Matters Reserved for the Board

The Board has delegated the exercise of voting rights attaching to the Company's investments to the Investment Manager. All other matters are reserved for the approval of the Board.

The Board has a schedule of matters reserved to it for decision and the requirement for Board approval on these matters is communicated directly to the Investment Manager. Such matters include strategy, borrowings, treasury and dividend policy. Full and timely information is provided to the Board to enable the Directors to function effectively and to discharge their responsibilities. The Board also reviews the financial statements, performance and revenue budgets.

Exercise of Voting Powers

The Investment Manager, in the absence of explicit instruction from the Board, is empowered to exercise discretion in the use of the Company's voting rights in respect of investee companies. The underlying aim of exercising such voting rights is to protect the return from an investment.

Disclosures required under LR 9.8.4R

The Financial Conduct Authority's Listing Rule 9.8.4R requires that the Company includes certain information relating to arrangements made between a controlling shareholder and the Company, waivers of Directors' fees, and long-term incentive schemes in force. The Directors confirm that there are no disclosures to be made in this regard.

Events after reporting date

The Board has evaluated material subsequent events for the Company and their effect on the annual financial report for the period from 30 June 2021 through to 16 September 2021. A list of these events is disclosed in note 24.

Disclosure of Information to the Auditor

The Directors confirm that, so far as each of them is aware, there is no relevant audit information of which the Company's auditor is unaware and the Directors have taken all the steps that they might have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Statement Regarding Annual Report and Financial Statements

Following a detailed review of the Annual Report and Financial Statements by the Audit and Risk Committee, the Directors consider that taken as a whole it is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy. In reaching this conclusion, the Directors have assumed that the reader of the Annual Report and Financial Statements would have a reasonable level of knowledge of the investment industry in general and investment companies in particular.

By Order of the Board

Caroline Hitch

Chair

16 September 2021

The Board and Committees

Values and Culture

The Board conducts itself with the core values of integrity, transparency, acceptance of challenge and accountability. It achieves this through a collaborative culture and a sense of shared endeavour. The Board is focused on meeting objectives for investors and all other stakeholders of the Company in a sustainable and responsible way.

The Board

The Board currently consists of a non-executive Chair and four non-executive Directors. The Board considers all of the Directors as independent of the Investment Manager and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

The dates on which Directors were appointed are contained within their biographies shown on pages 19 and 20. In accordance with the AIC Code all Directors submit themselves for re-election on an annual basis.

New Directors receive an induction from the Company Secretary on joining the Board, and all Directors receive other relevant training as necessary. Directors' and Officers' liability insurance cover is maintained by the Company on behalf of the Directors. There is no notice period and no provision for compensation upon early termination of appointment.

The Company has no executive Directors or employees. A management agreement between the Company and its Investment Manager sets out the matters over which the Investment Manager has authority and the limits beyond which Board approval must be sought. All other matters, including strategy, investment and dividend policies, gearing and corporate governance procedures, are reserved for the approval of the Board.

Duncan Baxter is the Company's Senior Independent Director. He is available to Shareholders if they have concerns where contact through the normal channels of the Chair or the Investment Manager is inappropriate.

All committee terms of reference, the schedule of matters reserved for the Board, the roles and responsibilities of the Chair and the roles and responsibilities of the Senior Independent Director are available on the Company's website.

Nomination Committee

The Nomination Committee, which is chaired by Ian Cadby, operates within clearly defined terms of reference, comprises the full Board and is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills and experience within the Board.

Board Evaluation

During the year the Directors completed a web-based Board evaluation questionnaire which covered the Board's composition and skills, strategy setting, workings, oversight of risk and performance, and its stakeholder management. The Board scored highly in all areas although noted that despite being 40% female, including the Chair, there is potential to improve other areas of diversity. Both the Nomination Committee and the Board recognise the importance of diversity and will consider this in respect of any new appointments.

Diversity and inclusion

As noted above the Board believes in the benefits of having a diverse range of skills and backgrounds, and the need to have a balance of experience, independence, diversity (including gender), and knowledge of the Company on its Board of Directors.

Director Attendance

Directors have attended Board and Committee meetings during the year ended 30 June 2021 as follows:

	Quarterly Board meetings	Ad Hoc Board meetings[1]	Audit and Risk Committee meetings	Management Engagement, Committee meetings	Nomination Committee meetings	Remuneration Committee meetings
C Hitch (Chair)	4/4	4/4	2/2	1/1	2/2	2/2
D A H Baxter[2]	4/4	3/4	2/2	1/1	2/2	2/2
W Dorman	4/4	4/4	2/2	1/1	2/2	2/2
I Cadby	4/4	4/4	2/2	1/1	2/2	2/2
J E Newlands	4/4	4/4	2/2	1/1	2/2	2/2

[1] Ad hoc board meetings are often called a short notice and only require the attendance of Jersey based directors, where possible the UK based directors attend via telephone but do not count towards the quorum.

[2] Mr Baxter was unable to attend the October 2020 board meeting due to a bereavement.

Tenure

The tenure policy which has been adopted by the Board provides that (other than in exceptional circumstances) no Director will serve on the Board for longer than nine years from the date of their first appointment.

Succession planning

A key duty of the Nomination Committee is to ensure plans are in place for orderly succession to the Board. The Board has adopted a formal succession plan scheduled to allow for an orderly refreshment of the board, with the intention that no director serves longer than nine years.

Management Engagement Committee

The Management Engagement Committee, which is chaired by Duncan Baxter, operates within clearly defined terms of reference, comprises the full Board, and reviews the appropriateness of the Investment Manager's continuing appointment together with the terms and conditions thereof, and to review the terms and quality of service received from other service providers.

The Board ensures the Company adheres to independent requirements in all agreements and service contracts.

Remuneration Committee

The Remuneration Committee determines and agrees with the Board the policy for the remuneration of all Directors. It is chaired by John Newlands.

Audit and Risk Committee

The composition and role of the audit and risk committee is described on page 29.

Relations with Shareholders

The Directors place a great deal of importance on communication with Shareholders. The Annual Report and Financial Statements are widely distributed to other parties who have an interest in the Company's performance. Shareholders and investors may obtain up to date information on the Company through the Investment Manager's website. The Company responds to letters from Shareholders on a wide range of issues.

A regular dialogue is maintained with the Company's institutional Shareholders. The Company Secretary is available to answer general Shareholder queries at any time throughout the year.

By Order of the Board

Caroline Hitch
Chair

16 September 2021

Statement of Compliance with the AIC Code

Introduction

The Company has a premium listing on the London Stock Exchange and is therefore required to report on how the principles of the UK Corporate Governance Code (the "UK Code") have been applied. Being an investment company, a number of the provisions of the UK Code are not applicable as the Company has no executive directors or internal operations.

The Board has considered the principles and provisions of the AIC Code. The AIC Code addresses all the principles and provisions set out in 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 provides more relevant information to stakeholders. The AIC Code is available on the AIC website www.theaic.co.uk.

The Company has complied with all the principles and provisions of the AIC Code during the year ended 30 June 2021.

Set out below is where stakeholders can find further information within the Annual Report about how the Company has complied with the various Principles and Provisions of the AIC Code.

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[1] The Company did not appoint any new Directors during the year.

Environmental, Social and Governance ("ESG") Statement

CQS New City High Yield Fund Limited ("the Company") is a Jersey domiciled and UK LSE listed investment company whose objective to provide investors with a high gross dividend yield and the potential for capital growth by mainly investing in high yielding fixed interest securities. The Company has appointed CQS (UK) LLP ("CQS") as its investment manager. The Board of Directors confirms that ESG factors are integral to the execution of the Company's investment strategy. The Board's intention is to invest responsibly and to consider the Company's broader impact on society and the environment. The Board believes the integration of ESG factors in the investment process is consistent with delivering sustainable attractive returns for Shareholders through deeper, more informed investment decisions. The Board has reviewed and agreed the ESG approach adopted by CQS and a summary of this, shown in red, is set out below.

CQS ESG Statement

CQS is committed to operating in a socially responsible manner, embedding strong and clear governance, and conducting our business in a sustainable way. In our role as an investment manager we view ESG factors as key drivers influencing financing costs, valuations and performance, while also acting as a lever to shape and influence the world for generations to come.

The assessment and integration of ESG factors is a crucial part of this commitment across the CQS investment platform, both in public and privately held companies, and a key factor in our decision-making. By embedding ESG into our investment process we enhance our ability to identify value, investment opportunities and, critically, to generate the best possible returns for our clients.

Our ESG process specifically looks at ESG factors through integration in our sector research process, including modelling and internal ratings with ESG methodologies applied to both public and private debt. Methodologies include analysing the relative importance and risk posed by any identified ESG issue. Research notes are stored in accessible form and available for use across the Front Office. Discussion and debate is encouraged during the ESG internal analysis, both within the CQS Research team and with Portfolio Managers.

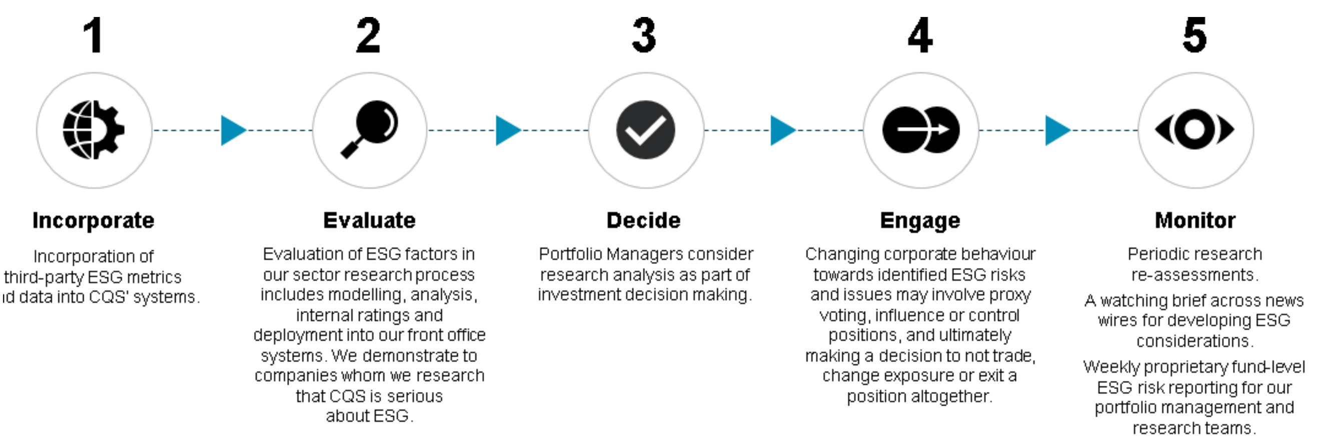
This is followed by an evaluation. Portfolio Managers are required to consider (to an appropriate degree having regard to their investment strategy) ESG risks as part of their investment decision making. This includes, but is not limited to:

- *Environmental: Climate Change, Water Stress, Biodiversity and Land Use, Toxic Emissions and Waste and Environment Opportunities*
- *Social: Labour management, Health and Safety, Privacy and Data Security, Stakeholder Opposition and Social Opportunities, Mobility and Diversity*
- *Governance: Corporate Governance and Corporate Behaviour including Ethics, Corruption, Instability, Diversity and Remuneration*

Please see below a diagram depicting our five-stage process.

Five-Stage ESG Investment Process

Environmental, Social and Governance (ESG) Policy applies to all strategies across the CQS platform.



Standards and Codes

CQS is a signatory and/or supporter to the following:

- *United Nations: Principles for Responsible Investment ("UN PRI")*
- *Task Force on Climate-Related Financial Disclosures ("TCFD")*
- *CDP ("CDP", formerly Carbon Disclosure Project)*
- *Standards Board for Alternative Investments ("SBAI", formerly HFSB)*
- *Climate Action 100+*

In addition:

- *CQS plans to become a signatory to the UK Stewardship Code*

Specific Statement from the CQS Investment Managers with regard to the Company

It is our responsibility to analyse and monitor investee companies' financial and non-financial (ESG) performance effectively. ESG integration is as an important consideration when analysing investment opportunities and we are committed to evolving our approach in support of our ESG principles. We follow the CQS firm-wide five-stage ESG investment integration process but are also guided by the following principals which have by agreed with the Board of the Company.

- *to engage directly in dialogue with companies to understand their ESG approach, their ambition and disclosure, and to table questions or concerns;*
- *to use internal and third party data and ratings providers;*
- *where possible, to vote at Shareholder meetings; and*
- *only as a last resort, exclude companies from our investment universe.*

At the time of writing, 30% of the Company's portfolio is covered by MSCI for their ESG rating service. MSCI have a minimum 65% threshold before we are able to provide a meaningful MSCI ESG rating for the portfolio. We monitor this closely and engage to try and further increase the percentage of the portfolio covered.

It is not unusual for portfolios in the credit universe to have a low level of ESG ratings and CQS (UK) LLP have been monitoring alternative measurements. One metric we have been evaluating is "Weighted average carbon intensity" or "WACI" which is a measure of the portfolio's exposure to carbon-intensive companies, expressed in tonnes of CO2 per million USD of revenue. It follows the MSCI methodology taking the carbon intensity of a company where available and where carbon intensity is not available for a given company, the average carbon intensity for the corresponding GICS Sub Industry is taken. For the Company, the WACI measure for the portfolio is currently 238 compared to the broader credit universe which is 250. We will continue to monitor this and other metrics as they become available.

Report of the Audit and Risk Committee

Composition of the Audit and Risk Committee

The Audit and Risk Committee is chaired by Wendy Dorman and comprises the full Board. The Audit and Risk Committee members have recent and relevant financial experience. The terms of reference of the Audit and Risk Committee are reviewed and re-assessed for their adequacy on an annual basis.

Role of the Audit & Risk Committee

A summary of the Committee's main audit review functions is shown below:

- to review and monitor the internal control systems and risk management systems on which the Company is reliant;
- to consider annually whether there is a need for the Company to have its own internal audit function;
- to monitor the integrity of the half-yearly and annual financial statements of the Company by reviewing, and challenging where necessary, the actions and judgements of the Investment Manager, the Company Secretary and the Administrator;
- to advise the Board on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for Shareholders to assess the Company's strategy, business model, position and performance
- to meet with the external Auditor, KPMG Channel Islands Limited ("KPMG") to review their proposed audit programme of work and their findings. The Board shall also use this as an opportunity to assess the effectiveness of the audit process;
- to make recommendations in relation to the appointment of the external Auditor and to approve the remuneration and terms of engagement of the external Auditor;
- to monitor and review annually the external Auditor's independence, objectivity, effectiveness, resources and qualification; and
- to consider and approve all non-audit services. No non-audit services are pre-approved.

Annual Report and Financial Statements

The Board is responsible for preparing the Annual Report and financial statements. The Audit and Risk Committee advises the Board on the form and content of the Annual Report and financial statements, any issues which may arise and any specific areas which require judgement.

The Company has adopted and reports against the AIC Code published in February 2019. The Audit and Risk Committee oversaw the work performed by the Company Secretary in ensuring that the Company is in compliance with the principles and provisions of the AIC Code, which is reported on in the Statement of Compliance with the AIC Code of Corporate Governance section on page 26.

The valuation of investments was a key area of focus given their significance to the financial statements as a whole. Following discussion with the Investment Manager, the Audit and Risk Committee gained comfort over the valuation as included in the Annual Report and Financial Statements.

Auditor

As part of its review of the scope and results of the audit, during the year the Audit and Risk Committee considered and approved KPMG Channel Islands Limited's ("KPMG") plan for the audit of the financial statements for the year ended 30 June 2021. At the conclusion of the audit KPMG did not highlight any issues to the Audit and Risk Committee which would cause it to qualify its audit report nor did it highlight any fundamental internal control weaknesses relevant to financial reporting. KPMG issued an unmodified audit report which is included on pages 32 to 36.

As part of the review of auditor independence and effectiveness, KPMG has confirmed that it is independent of the Company and has complied with relevant auditing standards. In evaluating KPMG, the Audit and Risk Committee has taken into consideration the standing, skills and experience of the firm and the audit team. The Audit and Risk Committee, from direct observation and enquiry of the Investment Manager and the Administrator, remains satisfied that KPMG continues to provide effective independent challenge in carrying out its responsibilities. No non-audit services were provided to the Company by KPMG during the year.

Following professional guidelines, the audit engagement partner rotates after a maximum of five years. The current audit engagement partner, James Le Bailly who replaced Steve Stormonth during the year, is in the first year of his appointment. KPMG LLP were auditors of the Company since the first year end 30 June 2008. In the interests of good governance, the Audit and Risk Committee carried out a tender process in 2016 and KPMG LLP were successfully re-appointed. KPMG LLP subsequently resigned as the Company's auditors on 17 June 2019 and was replaced, with effect from 17 June 2019, by KPMG Channel Islands Limited.

The Company also receives regular reporting on internal controls (as detailed below).

Significant risk related to the financial statements

The main area of accounting risk considered by the Committee during the year in relation to the Company's financial statements was the valuation of investments held by the Company.

The valuation of investments is undertaken in accordance with the accounting policies as set out in note 1. Details of the fair value hierarchy are set out in note 22.

In order to address this risk, the Company has appointed an Investment Manager and Custodian with clearly defined contracts and any breaches of these, or any law or regulation which the Company is required to comply with, are reported to the Board. The portfolio holdings and their pricing is reviewed on a daily basis and verified by the Investment Manager.

A full portfolio is prepared for each Board meeting, including a detailed movement of the top 60 holdings, which is actively commented on and discussed by the Directors.

Report of the Audit and Risk Committee

Internal Controls

The Committee, on behalf of the Board, is responsible for the Company's system of internal control and for reviewing its effectiveness. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for the year under review and up to the date of approval of this Annual Report and is regularly reviewed by the Board and accords with FRC Guidance.

As part of the onboarding procedures for the new Administrator in 2019, a comprehensive review was undertaken during the year of the Company's risk management framework. Key documents including the policies and procedures manual, business risk assessment and compliance monitoring plan were re-drafted by BNPP in close collaboration with the Audit and Risk Committee. BNPP also reviewed historic records of the Company to ensure they were in order. Following a comprehensive review, having a fresh pair of eyes look at our risk control processes has resulted in some further enhancements as well as providing comfort over the adequacy of our policies and procedures. The significant risks faced by the Company are as follows:

- financial;
- operational; and
- compliance.

The key components designed to provide effective internal control are outlined below:

- the Administrator together with the Investment Manager prepare forecasts and management accounts which allow the Board to assess the Company's activities and review its performance;
- the Board and Investment Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are regularly submitted to the Board and there are meetings with the Investment Manager as appropriate;
- as a matter of course the Investment Manager's compliance department continually reviews the Investment Manager's operations and reports to the Board on an annual basis and by exception;
- written agreements are in place which specifically define the roles and responsibilities of the Investment Manager, Company Secretary, Administrator and other third party service providers;
- the Board has considered the need for an internal audit function but, because of the compliance and internal control systems in place at the Investment Manager, the Company Secretary and the Administrator, has decided to place reliance on the Investment Manager's, the Company Secretary's and the Administrator's systems and internal audit procedures.

The Directors have reviewed BNP Paribas Securities Services' ISAE 3402 report for the period from 1 April 2020 to 31 March 2021 (report on the description of controls placed in operation, their design and operating effectiveness) on Fund Administration and are pleased to note that no significant issues were identified. The Administrator has confirmed there has been no change to their internal controls as described in the aforementioned report for the period 1 April 2021 through 30 June 2021, which would materially affect the Company's internal control environment.

In January 2020, the Board held a due diligence meeting at the offices of the Investment Manager, at which risk factors, particularly investment and market risk, were discussed in depth. The Board also met members of the investment team, and those responsible for risk and compliance at CQS. Details of the research and investment process were discussed, as well as ESG policies and procedures. A similar meeting is planned for November 2021.

During the year, the Audit and Risk Committee carried out an annual assessment of internal controls for the year ended 30 June 2021 by considering documentation from the Investment Manager, the Company Secretary and Administrator, including the internal audit and compliance functions. The results of the assessment were then reported to the Board.

Internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed. Accordingly, the internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against misstatement and loss.

The working practices adopted in response to COVID-19 last year, in particular working from home, continued throughout much of the financial year. Having reviewed the corresponding changes in risk profile at the beginning of the pandemic, the Audit and Risk Committee monitored the effectiveness of the internal control framework in place at key third party service providers. The Committee assessed the control environment as sufficiently robust to mitigate the impact of COVID-19 on the Company. The Committee will monitor and review the risk COVID-19 presents to the Company on an ongoing basis and will support the Board in introducing further controls if necessary and where appropriate.

The principal and emerging risks affecting the Company, a description of those risks, including the impact of COVID-19 on such risks, and controls mitigating those risks are disclosed on pages 11 to 12.

Wendy Dorman

Chair of the Audit and Risk Committee

16 September 2021

Directors' Remuneration Report

Remuneration Committee

The Remuneration Committee, which is chaired by John Newlands, operates within clearly defined terms of reference The Committee comprises the full Board.

The remuneration of the Directors has been set in order to attract individuals of a calibre appropriate to the future development of the Company. The Company's policy on Directors' remuneration, together with details of the remuneration of each Director, is shown below.

Policy on Directors' Remuneration

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £250,000 per annum. Subject to this overall limit, it is the Company's policy that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant investment companies that are similar in size and have similar investment objectives and structures. Furthermore, the level of remuneration should be sufficient to attract and retain the Directors needed to oversee properly the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ending 30 June 2022 and subsequent years.

On 3 June 2021, the Board approved an increased level of remuneration for the Directors with effect from 1 July 2021 as follows:

Chair	£42,500 (2020: £40,000)
Audit Chair	£36,500 (2020: £34,000)
Other	£30,000 (2020: £27,500)

No element of the Directors' remuneration is performance related.

No Director past or present has any entitlement to pensions, and the Company has not awarded any share options or long-term performance incentives to any of the Directors.

It is the Board's policy that Directors do not have service contracts, but new Directors are provided with a letter of appointment.

Directors' Emoluments

The Directors who served in the year received the following fees:

	2021 £	2020 £
C Hitch (Chair)	40,000	40,000
D A H Baxter	27,500	27,500
I Cadby	27,500	27,500
W Dorman (Audit and Risk Committee Chair)	34,000	34,000
J E Newlands	27,500	27,500
Totals	**156,500**	**156,500**

The amounts paid by the Company to the Directors were for services as non-executive Directors.

Voting at Annual General Meeting

An ordinary resolution for the approval of this Directors' Remuneration Report will be put to an advisory shareholder vote at the forthcoming Annual General Meeting.

Approval

The Directors' Remuneration Report on page 31 was approved by the Board of Directors and signed on its behalf on 16 September 2021.

On behalf of the Board

Caroline Hitch
Chair

Independent auditor's report

to the members of CQS New City High Yield Fund Limited

Our opinion is unmodified

We have audited the financial statements of CQS New City High Yield Fund Limited (the "Company"), which comprise the statement of financial position as at 30 June 2021, the statements of comprehensive income, changes in equity and the cash flow statement for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Company as at 30 June 2021, and of the Company's financial performance and cash flows for the year then ended;
- are prepared in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been properly prepared in accordance with the Companies (Jersey) Law, 1991.

Basis for Opinion

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

Key audit matters: our assessment of the risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matter was as follows (unchanged from 2020):

	The risk	Our response
Valuation of investments £257m; (2020 £231m) Refer to page 29 (Report of the Audit and Risk Committee), note 1(a) and 1(b) (accounting policy), note 9 (Financial assets designated at fair value through profit or loss) and notes 16 (financial instruments) and 22 (fair value hierarchy).	The Company's portfolio of investments makes up 94.5% of the Company's total assets (by value) and is the key driver of results. 99.8% of the investments comprise investments quoted on a stock exchange and therefore we do not consider these investments to be at a high risk of misstatement, or to be subject to a significant level of judgement. The Company's holdings in investments priced using broker quotes of £0.6m, which represent 0.2% of the investments and are not quoted or traded on a recognised stock exchange or other trading facility. These investments are valued using a valuation technique approved by the Board which takes into account, where appropriate, latest dealing prices, broker statements, valuation information and other relevant factors. **Risk:** The valuation of the Company's investments is a significant area of our audit, given that it represents a significant portion of the total assets of the Company. The valuation risk of the investments priced using broker quotes incorporates a risk of error given the significance of estimates and judgments that may be involved in the determination of their fair value.	Our audit procedures included: **Internal controls:** We assessed the design and implementation of controls over the valuation of investments priced via broker quotes. **Use of KPMG specialist:** We engaged our valuation specialist to: - Agree the valuation of quoted investments to externally available prices; and - Derive independent valuations for investments priced using broker quotes by obtaining reliable prices from external sources or where reliable externally sourced prices are not available, using a model-based valuation to calculate a price and compared it to the price used by the Company; and For investments not priced by our valuation specialist, we reviewed prices from independent third party sources and compared these to the prices used by the Company. **Assessing disclosures:** We also considered the Company's disclosures (see note 1 – critical accounting estimates and judgments) in relation to the use of estimates and judgments regarding the valuation of investments and the Company's investment valuation policies adopted in note 16 and fair value disclosures in note 22 for compliance with IFRS as adopted by the EU.

Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £2,724,000, determined with reference to a benchmark of total assets of £272,479,000, of which it represents approximately 1.0% (2020: 1.0%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality for the Company was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £ 2,043,000. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £136,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

In addition, we applied a lower materiality of £1,586,000, to the investment income balance (£21.1m) for which we believe misstatements of a lesser amount than materiality for the financial statements as a whole could be reasonably expected to influence the Company's members' assessment of the financial performance of the Company.

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

Going concern

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

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

- Availability of capital to meet operating costs and other financial commitments;
- The outcome of the upcoming continuation vote at the forthcoming Annual General Meeting of the Company;
- The ability to successfully refinance or repay debt which is due to mature; and
- The ability of the Company to comply with debt covenants;

We considered the risk that the outcome of the continuation vote could affect the Company over the going concern period, by considering outcomes of previous votes held by the Company, reviewing correspondence from the brokers that they have no concerns regarding the outcome of the continuation vote, and considering key financial metrics including discount/premium of the Company's share price against its reported net asset value per share, over the past 12 months. We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Company's financial forecasts.

We considered whether the going concern disclosure in note 1(a) to the financial statements gives a full and accurate description of the directors' assessment of going concern.

Our conclusions based on this work:

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

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

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

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

We performed procedures including:

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

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

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

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

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

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

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

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

Other information

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

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

Disclosures of emerging and principal risks and longer term viability

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

- the directors' confirmation within the Viability Statement (page 16) that they have carried out a robust assessment of the emerging and principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the emerging and principal risks disclosures describing these risks and explaining how they are being managed or mitigated;
- the directors' explanation in the Viability Statement (page 16) as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability Statement, set out on page 16 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Corporate governance disclosures

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

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

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

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

We have nothing to report on other matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

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

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 18, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

The purpose of this report and restrictions on its use by persons other than the Company's members as a body

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

James Le Bailly
for and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognized Auditors
Jersey

16 September 2021

Statement of Comprehensive Income

For the year ended 30 June 2021

	Notes	Year ended 30 June 2021 Revenue £'000	Capital £'000	Total £'000	Year ended 30 June 2020 Revenue £'000	Capital £'000	Total £'000
Net capital gains/(losses)							
Gains/(losses) on financial assets designated at fair value	9	–	23,913	23,913	–	(33,398)	(33,398)
Foreign exchange loss*		–	(36)	(36)	–	(97)	(97)
Revenue							
Investment income	2	21,151	–	21,151	22,625	–	22,625
Total Income		21,151	23,877	45,028	22,625	(33,495)	(10,870)
Expenses							
Investment management fee	3	(1,456)	(485)	(1,941)	(1,477)	(492)	(1,969)
Other expenses	4	(800)	(14)	(814)	(745)	(40)	(785)
Total expenses		(2,256)	(499)	(2,755)	(2,222)	(532)	(2,754)
Profit/(loss) before finance costs and taxation		18,895	23,378	42,273	20,403	(34,027)	(13,624)
Finance income/(costs)							
Interest income		–	–	–	12	–	12
Interest expense	5	(326)	(107)	(433)	(418)	(139)	(557)
Profit/(loss) before taxation		18,569	23,271	41,840	19,997	(34,166)	(14,169)
Irrecoverable withholding tax	6	(267)	–	(267)	(331)	–	(331)
Profit/(loss) after taxation and total comprehensive income/(loss)		18,302	23,271	41,573	19,666	(34,166)	(14,500)
Basic and diluted earnings per ordinary share (pence)	8	4.18	5.32	9.50	4.59	(7.98)	(3.39)

* Excludes foreign exchange gains and losses on financial assets designated through profit and loss which are presented within gains/(losses) on financial assets designated at fair value.

The total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with IFRS as adopted by the EU (refer to note 1). The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies.

There is no other comprehensive income as all income is recorded in the Statement of Comprehensive Income above.

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

No operations were acquired or discontinued in the year.

The accompanying notes on pages 41 to 55 are an integral part of these financial statements.

Statement of Financial Position

As at 30 June 2021

	Notes	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Non-current assets			
Financial assets designated at fair value through profit or loss	9	257,467	230,741
Current assets			
Debtors and other receivables	10	3,585	9,882
Cash and cash equivalents		11,427	2,853
		15,012	12,735
Total assets		272,479	243,476
Current liabilities			
Bank loan	11	(33,000)	(31,000)
Creditors and other payables	12	(5,301)	(6,797)
Total liabilities		(38,301)	(37,797)
Net asset value		234,178	205,679
Stated capital and reserves			
Stated capital account	13	203,416	197,037
Special distributable reserve		50,385	50,385
Capital reserve		(36,454)	(59,725)
Revenue reserve		16,831	17,982
Equity shareholders' funds		234,178	205,679
Net asset value per ordinary share (pence)	15	52.62p	47.52p

The financial statements on pages 37 to 55 were approved by the Board of Directors and authorised for issue on 16 September 2021 and were signed on its behalf by

Caroline Hitch
Chair

The accompanying notes on pages 41 to 55 are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2021

	Notes	Stated capital account* £'000	Special distributable reserve‡ £'000	Capital reserve* £'000	Revenue reserve† £'000	Total £'000
At 1 July 2020		197,037	50,385	(59,725)	17,982	205,679
Total comprehensive income for the year:						
Profit for the year		–	–	23,271	18,302	41,573
Transactions with owners recognised directly in equity:						
Dividends paid	7	–	–	–	(19,453)	(19,453)
Net proceeds from issue of shares	13	6,379	–	–	–	6,379
At 30 June 2021		203,416	50,385	(36,454)	16,831	234,178

For the year ended 30 June 2020

	Notes	Stated capital account* £'000	Special distributable reserve‡ £'000	Capital reserve* £'000	Revenue reserve† £'000	Total £'000
At 1 July 2019		191,007	50,385	(25,559)	17,294	233,127
Total comprehensive (loss)/income for the year:						
(Loss)/profit for the year		–	–	(34,166)	19,666	(14,500)
Transactions with owners recognised directly in equity:						
Dividends paid	7	–	–	–	(18,978)	(18,978)
Net proceeds from issue of shares		6,030	–	–	–	6,030
At 30 June 2020		197,037	50,385	(59,725)	17,982	205,679

* Following a change in Jersey Company Law effective 27 June 2008, dividends can be paid out of any capital account of the Company subject to certain solvency restrictions. However, it is the Company's policy to account for revenue items and pay dividends, drawing where necessary from a separate revenue reserve.

‡ The balance on the special distributable reserve of £50,385,000 (2020: £50,385,000) is treated as distributable profits available to be used for all purposes permitted by Jersey Company Law including the buying back of ordinary shares, the payment of dividends and the payment of preliminary expenses.

† The balance on the revenue reserve of £16,831,000 (2020: £17,982,000) is available for paying dividends

The accompanying notes on pages 41 to 55 are an integral part of these financial statements.

Cash Flow Statement

For the year ended 30 June 2021

	Notes	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Operating activities			
Profit/(loss) before finance income/(cost) and taxation[1]		42,273	(13,624)
Adjustments to reconcile profit/(loss) before tax to net cash flows:			
Realised loss on financial assets designated at fair value through profit or loss	9	11,575	2,766
Unrealised (gains)/losses on financial assets designated at fair value through profit or loss	9	(35,489)	30,632
Effective interest adjustment	9	(232)	(162)
Foreign exchange loss		36	97
Purchase of financial assets designated at fair value through profit or loss[2]		(70,415)	(86,268)
Proceeds from sale of financial assets designated at fair value through profit or loss[3]		73,280	73,197
Changes in working capital			
Decrease in other receivables		51	824
(Decrease)/increase in other payables		(422)	478
Irrecoverable withholding tax paid		(267)	(331)
Net cash outflow from investing activities		20,390	7,609
Financing activities			
Dividends paid	7	(19,453)	(18,978)
Drawdown of bank loan	11	2,000	3,000
Finance costs		(431)	(548)
Net proceeds from issuance of ordinary shares[4]	13	6,104	6,030
Net cash outflow from financing		(11,780)	(10,496)
Increase/(decrease) in cash and cash equivalents		8,610	(2,887)
Cash and cash equivalents at the start of the year		2,853	5,837
Exchange loss		(36)	(97)
Cash and cash equivalents at the end of the year		11,427	2,853

[1] Included within profit/(loss) before finance income/(cost) before taxation is dividend income of £2,934,000 (30 June 2020: £2,668,000) and interest income of £18,217,000 (30 June 2020: £19,957,000).

[2] Amounts due to brokers as at 30 June 2021 relating to purchases of financial assets designated at fair value through profit amounted to £4,980,000 (30 June 2020: £6,059,000).

[3] Amounts due from brokers as at 30 June 2021 relating to sales of financial assets designated at fair value through profit amounted to £0 (30 June 2020: £6,520,000).

[4] Amounts due on new share issuance not yet received as at 30 June 2021 amounted to £275,000 (30 June 2020: £0).

The accompanying notes on pages 41 to 55 are an integral part of these financial statements.

Notes to the Financial Statements

1 Accounting Policies

(a) Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and in accordance with the guidance set out in the Statement of Recommended Practice ("SORP"): Financial Statements of Investment Trust Companies and Venture Capital Trusts issued by the AIC in November 2014 and updated most recently in October 2019 with consequential amendments. Notwithstanding that CQS New City High Yield Fund Limited (the "Company") is not an investment trust company, given the purpose of the Company and certain similar characteristics, the Company has chosen to follow the guidance set out in the SORP where it is consistent with the requirements of IFRS.

The functional and reporting currency of the Company is pound sterling because that is the primary economic environment in which the Company operates. The notes and financial statements are presented in pound sterling and are rounded to the nearest thousand except where otherwise indicated.

The financial statements have been prepared on the historical cost basis, except that investments are stated at fair value and categorised as financial assets at fair value through profit or loss.

Going concern

At each Annual General Meeting of the Company, Shareholders are given the opportunity to vote on an ordinary resolution to continue the Company as an investment company. If any such resolution is not passed, the Board will put forward proposals at an extraordinary general meeting to liquidate or otherwise reconstruct or reorganise the Company. Given the performance of the Company, input from the Company's major Shareholders and its broker, the Board considers it likely that Shareholders will vote in favour of continuation at the forthcoming Annual General Meeting.

The Company's existing loan facility as detailed on page 48 is due to expire on 18 December 2021 after which it is anticipated the Company will take out a new facility on comparable terms. After making enquiries of the Investment Manager, and having considered the Company's investment objective, nature of the investment portfolio, loan facility, expenditure projections and impact of COVID-19 on the Company, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements, notwithstanding that the Company is subject to an annual continuation vote as described above.

Accounting Developments

Standards and amendments to existing standards effective in current year:

Definition of Material (Amendments to IAS 1 and IAS 8)

The International Accounting Standards Board has redefined its definition of material, issued practical guidance on applying the concept of materiality and issued proposals focused on the application of materiality to disclosure of other accounting policies.

During the period, a number of other new standards, amendments and interpretations became applicable for the current reporting period which are not relevant to the Company's operations.

Standards and amendments becoming effective in future periods:

Interest Rate Benchmark Reform – Phase 2

These amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and hedge accounting (no impact).

Change in basis for determining cash flows

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

At 30 June 2021, the Company held £51.6m floating rate investment securities that will be subject to IBOR reforms. The majority of these positions reference LIBOR and the Company expects them, and other IBORs, to be replaced by SONIA near the end of 2021, or other risk-free rates, as applicable. The Company expects there will not be a significant modification gain or loss that will arise as a result of applying the amendments to these changes.

Disclosure

The amendments will require the Company to disclose additional information about the entity's exposure to risks arising from interest rate benchmark reform and related risk management activities.

Notes to the Financial Statements

Transition

The Company plans to apply the amendments from 1 July 2021. Application will not impact amounts reported for year ended 30 June 2021 or prior periods.

Other than the above, the new and amended standards not yet effective are not expected to have a significant impact on the Company's financial statements.

Critical accounting estimates and judgements

The preparation of the financial statements necessarily requires the exercise of judgement both in application of accounting policies which are set out below and in the selection of assumptions used in the calculation of estimates. These estimates and judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. However, actual results may differ from these estimates.

The valuation of financial assets involves estimation and judgements. The major part of the Company's financial assets is its financial assets held at fair value through profit or loss which is valued by reference to listed and quoted bid prices, however some of these financial assets are thinly traded. Such financial assets are best valued by reference to current market price quotes provided by independent brokers. The Directors may overlay such prices with situation specific adjustments including (a) taking a second independent opinion on a specific investment, or (ii) reducing the value to a net present value, to reflect the likely time to be taken to realise a stock which the Company is actively looking to sell. The outturn is reflected in the valuations of investments as set out in note 22 to the financial statements.

Financial assets which are not listed or where trading in the securities of an investee company is suspended are valued at the Board's estimate of fair value in accordance with International Private Equity and Venture Capital (IPEV) valuation guidance. Unquoted financial assets are valued by the Directors on the basis of all the information available to them at the time of valuation. This includes a review of the financial and trading information of the investee company, covenant compliance, ability to pay the interest due and cash held. For convertible bonds this also includes consideration of their discounted cash flows and underlying equity value based on information provided by the Investment Manager.

As outlined above, the Directors have applied judgement and determined that the Company's presentation and functional currency is pound sterling.

There were no other significant accounting estimates or significant judgements in the current or previous year.

A summary of the principal accounting policies which have been applied to all periods presented in these financial statements is set out below:

(b) Financial assets

Financial assets which comprise equity shares, convertible bonds and fixed income securities, are classified as held at fair value through profit or loss as the Company's business model is not to hold these financial assets for the sole purposes of collecting contractual cash flows. In making this assessment, the Directors have given regard to the investment strategy of the Company, the fact that the performance of the portfolio is evaluated on a fair value basis and the fact that the Investment Manager is remunerated on a percentage of total assets.

Purchases or sales of financial assets are recognised/derecognised on the date the Company trades the investments. On initial recognition investments are measured at fair value and classified as fair value through profit or loss with any subsequent gain or loss, including any gain or loss arising from a change in exchange rates, recognised in the Statement of Comprehensive Income.

Financial assets held at fair value through profit or loss are valued in accordance with the policies described in the critical accounting estimates and judgements section above.

Financial assets also include the Company's cash and cash equivalents (comprising of cash held in current accounts and overdraft balances) and debtors and other receivables which are held at amortised cost using effective interest rate, less any impairment.

(c) Financial liabilities

Financial liabilities include amounts due to brokers, bank loan, interest on bank loan and other creditors which are held at amortised cost using the effective interest rate method. Financial liabilities are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

(d) Income

Dividends receivable on equity shares (including preference shares) are recognised as income on the date that the related investments are marked ex-dividend. Dividends receivable on equity shares where no ex-dividend date is quoted are recognised as income when the Company's right to receive payment is established.

Dividends from overseas companies are shown gross of any non-recoverable withholding taxes which are disclosed separately in the Statement of Comprehensive Income.

Fixed returns on non-equity shares and debt securities (including preference shares) are recognised on a time apportioned basis so as to reflect the effective interest rate on those instruments. Other returns on non-equity shares are recognised when the right to the return is established.

Income from deposit interest is recognised on an accruals basis.

Where the Company has elected to receive its dividends in the form of additional shares rather than cash, an amount equal to the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in the capital reserve.

(e) Expenses, including finance charges

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:

- expenses which are incidental to the acquisition of an investment are charged to the capital account;
- expenses which are incidental to the disposal of an investment charged to the capital account;
- the Company charges 25% of investment management fees and interest costs to capital, in line with the Board's expected long term return in the form of capital gains and income respectively from the investment portfolio of the Company. For further details refer to notes 3 and 5; and
- expenses incurred in connection with the maintenance or enhancement of the value of the investments or for the long term benefit of the Company are charged to capital.

(f) Foreign currencies

Transactions denominated in foreign currencies are recorded in the functional currency at actual exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the period end are reported in sterling at the rates of exchange prevailing at the period end. Exchange gains and losses on investments held at fair value through profit or loss are included in 'Gains or losses on investments held at fair value through profit or loss'. Exchange gains and losses on other balances are disclosed separately in the Statement of Comprehensive Income.

(g) Reserves

(a) Capital reserve. Following a change in Jersey Company law effective 27 June 2008, dividends can be paid out of any capital account of the Company subject to certain solvency restrictions. It is the Company's policy however to account for revenue items and pay dividends through a separate revenue reserve. The following are accounted for in the capital reserve:
  - gains and losses on the realisation of investments;
  - realised and unrealised exchange differences of a capital nature;
  - expenses and finance costs charged in accordance with the policies above; and
  - increases and decreases in the valuation of investments held at the period end.

(b) Special distributable reserve. This reserve is treated as distributable profits available to be used for all purposes permitted by Jersey company law including the buying back of ordinary shares, the payment of dividends (see note 7) and the payment of preliminary expenses.

(c) Revenue reserve. The net profit/(loss) and total comprehensive income/(loss) arising in the revenue column of the Statement of Comprehensive Income is added to or deducted from this reserve and is available for paying dividends.

(h) Treasury shares

When the Company purchases its ordinary shares to be held in treasury, the amount of the consideration paid, which includes directly attributable costs is recognised as a deduction from the stated capital account. When these shares are sold subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from the stated capital account.

(i) Segmental information

The Company, holds a wide variety of different investments in a wide range of issues locating in different geographies and operating in different sectors. However, resources are allocated and the business is managed by the chief operating decision-makers, the directors, on an aggregated basis. Strategic and financial management decisions are determined centrally by the Directors and, on this basis, the Company operates as a single investment management business and no segmental reporting is provided.

2 Income

	2021 £'000	2020 £'000
Income from investments*		
Dividend income	2,934	2,668
Interest on fixed interest securities†	18,217	19,957
Total income	21,151	22,625
Income from investments		
Listed/Quoted on a recognised investment exchange	21,151	21,657
Prices via direct broker quotes	–	968
	21,151	22,625

*All investment income arises on investments valued at fair value through profit or loss.
†Fixed interest securities include both fixed and floating rate securities.

3 Investment Management Fee

	2021 Revenue £'000	2021 Capital £'000	2021 Total £'000	2020 Revenue £'000	2020 Capital £'000	2020 Total £'000
Investment management fee	1,456	485	1,941	1,477	492	1,969

The Company's investment manager is CQS (UK) LLP ("CQS").

As per the Investment Management Agreement dated 18 September 2019, the management fee is charged at a rate of 0.80% per annum on the Company's total assets (being total assets less current liabilities (other than bank borrowings and ignoring any taxation which is or may be payable by the Company)) up to £200 million, 0.70% per annum of total assets in excess of £200 million and up to and including £300 million and 0.60% per annum thereafter. The management fee is paid monthly in arrears.

The contract between the Company and CQS (UK) LLP may be terminated by either party giving not less than 12 months' notice of termination.

During the year ended 30 June 2021, investment management fees of £1,941,000 were incurred (year ended 30 June 2020: £1,969,000), of which £168,000 was payable at the period end (year ended 30 June 2020: £602,000). Investment management fees have been allocated 75% to revenue and 25% to capital.

4 Other Expenses

	2021 Revenue £'000	2021 Capital £'000	2021 Total £'000	2020 Revenue £'000	2020 Capital £'000	2020 Total £'000
Secretarial and administration fees	202	–	202	202	–	202
Directors' fees	157	–	157	157	–	157
Auditors' remuneration for:						
– audit services	40	–	40	45	–	45
Broker fees	30	–	30	29	–	29
Printing	20	–	20	10	–	10
Bank and custody charges	84	–	84	56	–	56
Registrars' fees	34	–	34	34	–	34
Depositary fees	45	–	45	52	–	52
Legal & professional fees	43	–	43	71	–	71
Other	145	14	159	89	40	129
	800	14	814	745	40	785

Directors' fees

On 3 June 2021, the Board approved an increased level of remuneration for the Directors from £157,000 (Chair: £40,000; Audit Chair: £34,000 and other directors: £27,500) to £169,000 with annual effect from 1 July 2021 as follows:

Chair £42,500
Audit Chair £36,500
Other £30,000

No Directors' fees were accrued as at 30 June 2021.

Further details are provided in the Directors' Remuneration Report on page 31.

No pension contributions were payable in respect of any of the Directors and the Company does not have any employees.

Non-audit fees paid to the auditor

There were no non-audit fees paid to the auditor during the year ended 30 June 2021 (year ended 30 June 2020: £nil).

5 Interest expense

	2021 Revenue £'000	2021 Capital £'000	2021 Total £'000	2020 Revenue £'000	2020 Capital £'000	2020 Total £'000
Interest expense	326	107	433	418	139	557

Interest expense and similar charges have been allocated 25% to capital and 75% to revenue as explained in note 1(e).

6 Taxation

The taxation charge for the year is comprised of:

	2021 Revenue £'000	2021 Capital £'000	2021 Total £'000	2020 Revenue £'000	2020 Capital £'000	2020 Total £'000
Irrecoverable withholding tax suffered	**267**	**–**	**267**	331	–	331

The taxation on profit differs from the theoretical expense that would apply on the Company's profit before taxation using the applicable tax rate in Jersey of 0% (2020: 0%) as follows:

	2021 £'000	2020 £'000
Profit/(loss) on ordinary activities before taxation	**41,840**	(14,169)
Theoretical tax expense at 0% (2020: 0%)	**–**	–
Effects of:		
Foreign withholding tax	**267**	331
Current year revenue tax charge	**267**	331

7 Dividends

	2021 £'000	2020 £'000
Amounts recognised as distributions to equity holders in the year:		
Dividends in respect of the year ended 30 June 2020		
– Fourth interim dividend of 1.46p (2019: 1.45p) per ordinary share	**6,319**	6,125
Dividends in respect of the year ended 30 June 2021		
– First interim dividend of 1.00p (2020: 1.00p) per ordinary share	**4,359**	4,256
– Second interim dividend of 1.00p (2020: 1.00p) per ordinary share	**4,383**	4,276
– Third interim dividend of 1.00p (2020: 1.00p) per ordinary share	**4,392**	4,321
	19,453	18,978

A fourth interim dividend in respect of the year ended 30 June 2021 of 1.47p per ordinary share was paid on 31 August 2021 to Shareholders on the register on 30 July 2021, having an ex-dividend date of 29 July 2021.

In accordance with IFRS, dividends paid to the Company's Shareholders are recognised when they become payable on the ex-dividend date, consequently the fourth interim dividend has not been included as a liability in these financial statements and will be recognised in the period in which it is paid.

8 Basic and diluted earnings per Ordinary Share

	2021 Revenue pence	2021 Capital pence	2021 Total pence	2020 Revenue pence	2020 Capital pence	2020 Total pence
Basic and diluted earnings per ordinary share	**4.18p**	**5.32p**	**9.50p**	4.59p	(7.98)p.	(3.39)p

The revenue earnings per ordinary share is based on the net profit after taxation of £18,302,000 (year ended 30 June 2020: £19,666,000) and the capital return per ordinary share is based on a net capital gain of £23,271,000 (year ended 30 June 2020: a net capital loss of £34,166,000). Both the revenue and capital earnings per share is based on a weighted average of 437,519,666 (year ended 30 June 2020: 428,002,951) ordinary shares in issue throughout the year.

Total earnings per share reflects both revenue earnings and capital returns per ordinary share. The Company has not issued any instruments that could potentially dilute basic earnings per share in the future. Therefore, the Company's basic earnings per share is equivalent to its diluted earnings per share.

There have been no transactions involving the Company's ordinary shares between 30 June 2021 and 16 September 2021 other than those disclosed in note 24, which were issued at a premium to the 30 June 2021 NAV.

9 Financial assets designated at fair value through profit or loss

All financial assets are valued at fair value through profit or loss. Gains or losses arising from changes in the fair value of investments are included in the Statement of Comprehensive Income.

	2021 £'000	2020 £'000
Listed/Quoted on a recognised investment exchange	**256,831**	221,877
Prices via direct broker quotes	**636**	8,864
	257,467	230,741
Equity shares	**39,305**	31,409
Fixed income securities	**216,602**	188,849
Convertible bonds	**1,560**	10,483
	257,467	230,741

	2021 £'000	2020 £'000
Opening valuation	**230,741**	253,034
Purchases at cost	**80,009**	88,696
Sales proceeds	**(77,428)**	(77,753)
Realised losses on sales	**(11,575)**	(2,766)
Effective interest adjustment	**232**	162
Unrealised gains/(losses)	**35,488**	(30,632)
Closing valuation	**257,467**	230,741

Losses on investments	2021 £'000	2020 £'000
Realised losses[1]	**(11,575)**	(2,766)
Unrealised gains/(losses)[2]	**35,488**	(30,632)
Gains/(losses) on investments	**23,913**	(33,398)

[1] Realised losses on financial assets designated at fair value through profit or loss is made up of gains of £2,755,000 and losses of £14,330,000.

[2] Unrealised losses on financial assets designated at fair value through profit or loss is made up of gains of £47,622,000 and losses of £12,133,000.

10 Debtors and Other Receivables

	2021 £'000	2020 £'000
Amounts due from brokers	–	6,520
Amounts due on new share issuance	275	–
Accrued income	3,302	3,356
Prepayments and other debtors	8	6
	3,585	9,882

11 Bank Loan Facility

	2021 £'000	2020 £'000
Bank loan facility- opening balance	31,000	28,000
Drawdowns	2,000	3,000
Bank loan facility – closing balance	33,000	31,000

The Company has a short term unsecured loan facility with Scotiabank Europe Plc ("Scotiabank"). The facility is due to expire on 18 December 2021 after which it is anticipated the Company will take out a new facility on comparable terms.

On 18 December 2020, the Company drew down a further £2,000,000. As at 30 June 2021, the unsecured loan facility had a limit of £35,000,000 of which £33,000,000 was drawn down at an interest rate of 1.43038%, which is made up of LIBOR of 0.08038% plus a margin rate.

In advance of LIBOR ceasing to be published on 31 December 2021, the Company signed an amendment agreement with Scotiabank on 16 September 2021 that changes the benchmark reference rate from LIBOR to SONIA (or similar alternative reference rates for drawdowns in other permitted currencies).

The current loan facility was renewed on 18 December 2020 on the same terms as applied to the previous facility that expired on the 18 December 2020. During the year ended 30 June 2021 the covenants of the loan facility have been met. The following are the covenants for the facility held as at 30 June 2021:

- the borrower shall not permit the adjusted asset coverage to be less than 4 to 1
- the borrower shall not permit the net asset value to be less than £95,000,000 at any time
- the borrower shall maintain an additional adjusted asset coverage of at least 1.5 to 1 at all times
- the loan facility is rolled over every three months and can be cancelled at any time

For the year ended 30 June 2021 and up until the date of this report, the Company has complied with all covenants of the loan facility.

The bank loan facility is a financial liability held at amortised cost.

12 Creditors and Other Payables

	2021 £'000	2020 £'000
Amounts due to brokers	4,980	6,059
Interest on bank loan facility	16	13
Other creditors	305	725
	5,301	6,797

13 Stated Capital Account

Authorised

The authorised share capital of the Company is represented by an unlimited number of ordinary shares of no par value.

Allotted, called up and fully-paid

	Number of ordinary shares	Amount received £'000	Share Issue Costs £'000	Share Capital £'000
Total as at 1 July 2020	**432,851,858**			197,037
600,000 ordinary shares of no par value allotted on 28 July 2020 at 50.00p	600,000	300	(2)	298
1,700,000 ordinary shares of no par value allotted on 07 September 2020 at 49.75p	1,700,000	846	(6)	840
750,000 ordinary shares of no par value allotted on 15 September 2020 at 50.00p	750,000	375	(3)	372
400,000 ordinary shares of no par value allotted on 24 November 2020 at 50.00p	400,000	200	(2)	198
800,000 ordinary shares of no par value allotted on 13 January 2021 at 52.50p	800,000	420	(3)	417
600,000 ordinary shares of no par value allotted on 18 January 2021 at 52.40p	600,000	312	(2)	310
650,000 ordinary shares of no par value allotted on 25 January 2021 at 52.60p	650,000	342	(3)	339
850,000 ordinary shares of no par value allotted on 03 February 2021 at 51.60p	850,000	439	(3)	436
1,800,000 ordinary shares of no par value allotted on 05 May 2021 at 54.00p	1,800,000	972	(7)	965
800,000 ordinary shares of no par value allotted on 13 May 2021 at 54.40p	800,000	435	(3)	432
500,000 ordinary shares of no par value allotted on 28 May 2021 at 54.50p	500,000	273	(2)	271
500,000 ordinary shares of no par value allotted on 04 June 2021 at 54.80p	500,000	274	(2)	272
750,000 ordinary shares of no par value allotted on 14 June 2021 at 54.80p	750,000	411	(3)	408
1,000,000 ordinary shares of no par value allotted on 29 June 2021 at 55.00p	1,000,000	550	(4)	546
500,000 ordinary shares of no par value allotted on 30 June 2021 at 55.30p	500,000	277	(2)	275
Total as at 30 June 2021	**445,051,858**	**6,426**	**(47)**	**203,416**

The balance of shares left in Treasury at the year-end was nil (2020: nil shares).

On 1 October 2020, a block listing facility for 43,000,000 new shares was approved by the UK Listing Authority. This facility is used for the purposes of satisfying market demand.

Since 30 June 2021, a further 10.1m ordinary shares have been issued for consideration of £5.54 million.

Because the criteria in paragraphs 16c and 16d of IAS 32 Financial Instruments: Presentation have been met, the stated capital of the Company is classified as equity even though there is an annual continuation vote.

Ordinary shares issued are accounted for based on the associated trade date.

14 Reserves

The capital of the Company is managed in accordance with its investment policy, in pursuit of its investment objective, which is detailed on page 15.

On 24 May 2007, the Royal Court of the Island of Jersey confirmed that the amount standing to the credit of the Company's stated capital account be reduced by 75% and was used to create the special distributable reserve in the Company's accounts. This reserve is treated as distributable profits available to be used for all purposes permitted by Jersey company law including the buying back of ordinary shares, the payment of dividends and the payment of preliminary expenses.

Capital management policies and procedures

The Board defines capital as financial resources available to the Company. The Company's capital as at 30 June 2021 comprises its stated capital, special distributable reserve, capital reserve and revenue reserve at a total of £234,178,000 (2020: £205,679,000).

The Company's capital management objectives are:

- to ensure that the Company will be able to continue as a going concern; and
- to maximise the capital return to its equity Shareholders through an appropriate balance of equity capital and debt.

The Board normally seeks to limit gearing to 25% of Shareholders' funds at any given time. The Board monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes the nature and planned level of gearing, which takes account of the Investment Manager's views on the market, and the extent to which revenue in excess of that which is required to be distributed should be retained. The Company has no externally imposed capital requirements.

The capital of the Company is managed in accordance with its investment policy detailed in the Strategic Review on page 15.

15 Net Asset Value per Ordinary Share

The net asset value per ordinary share and the net asset value attributable to the ordinary shares at the year-end calculated in accordance with their entitlements in the Articles of Association were as follows:

	2021	2020
Net Asset Value (£'000)	234,178	205,679
Net Asset per share (pence)	52.62p	47.52p

NAV per share has been calculated based on the share capital in issue as at year end. The issued share capital as at 30 June 2021 comprised of 445,051,858 ordinary shares (30 June 2020: 432,851,858).

16 Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, bank loan and debtors and creditors that arise directly from its operations. As an investment company, the Company holds a portfolio of financial assets and financial liabilities in pursuit of its investment objective. The Company uses flexible borrowings for short term purposes, and to seek to enhance the returns to Shareholders, when considered appropriate by the Investment Manager.

Financial assets designated at fair value through profit or loss (see note 9) are held at fair value. For listed securities trading actively, fair value is considered to be equivalent to the most available recent bid price. Where listed securities are not trading actively, independent broker quotes are referenced to estimate fair value. For unlisted securities, fair value is determined by the Board using valuation techniques based on unobservable inputs, mainly using broker quotes. The fair value of other receivables, cash and cash equivalents and other payables is represented by their carrying value in the Statement of Financial Position shown on page 38. These are short term financial assets and liabilities whose carrying value approximate fair value.

The main risks that the Company faces arising from its financial instruments are:

(i) market price risk, being the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and comprises currency risk, interest rate risk and other price risk;

(ii) interest rate risk, being the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates;

(iii) foreign currency risk, being the risk that the value of investment holdings, investment purchases, investment sales and income will fluctuate because of movements in currency exchange rates;

(iv) credit risk, being the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company; and

(v) liquidity risk, being the risk that the bank may demand repayment of the loan and/or that the Company may not be able to liquidate quickly its investments.

The Company held the following categories of financial instruments as at 30 June 2021 all of which are held at amortised cost, other than financial assets designated at fair value through profit or loss, which are held at fair value. The Directors are of the opinion that for the financial instruments held at amortised cost, the carrying value approximates their fair value.

	2021 £'000	2020 £'000
Financial assets		
Financial assets designated at fair value through profit or loss	257,467	230,741
Cash and cash equivalents	11,427	2,853
Amounts due from brokers	–	6,520
Amounts due on new share issuance	275	–
Accrued income	3,302	3,356
Financial liabilities		
Amount due to brokers	4,980	6,059
Bank loan	33,000	31,000
Interest on bank loan facility	16	13
Other creditors	305	725

17 Market Price Risk

Market price risk (including other price risk) arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Company might suffer through holding market positions in the face of price movements. To mitigate the risk the Board's investment strategy is to select investments for their fundamental value. Stock selection is therefore based on disciplined accounting, market and sector analysis, with the emphasis on long term investments. An appropriate spread of investments is held in the portfolio in order to reduce both the statistical risk and the risk arising from factors specific to a country or sector. The Investment Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to consider investment strategy.

Investment and portfolio performance are discussed in the Investment Manager's Review and further information on the investment portfolio is set out on pages 8 to 9. These pages do not form part of the audited financial statements.

If the investment portfolio valuation fell 5% at 30 June 2021, the impact on the profit or loss and the net asset value would have been negative £12.9 million (2020: a fall of 5% would have impacted the profit or loss and the net asset value by negative £11.5 million). Due to the effect of gearing, the impact on the net asset value per share would have been a decrease of 5.5% (2020: decrease of 5.6%). If the investment portfolio valuation rose by the same amount, the effect would have been equal and opposite. The calculations are based on the portfolio valuation at the Statement of Financial Position date and is not representative of the period as a whole, and may not be reflective of future market conditions.

The Directors believe 5% is a relevant percentage based on average market volatility in recent years.

18 Interest Rate Risk

The Company's financial assets and liabilities, with the exception of cash and cash equivalents (see below), that are subject to interest rate risk are detailed below.

	2021 £'000	2021 Weighted average interest rate (%)	2021 Weighted average period for which the rate is fixed (years)	2020 £'000	2020 Weighted average interest rate (%)	2020 Weighted average period for which the rate is fixed (years)
Financial assets:						
Fixed income & convertible securities	130,814	7.10	4.31	123,926	6.87	4.26
Floating rate notes	78,591	5.97	n/a	64,641	6.68	n/a
Preference shares	12,360	10.89	n/a	13,235	7.13	n/a
Financial liabilities:						
Bank Loan	33,000	1.43	n/a	31,000	1.26	n/a

Financial assets

Fixed, floating rate and preference share yields, and their prices, are determined by market perception as to the appropriate level of yields given the economic background. Key determinants include economic growth prospects, inflation, the Government's fiscal position, short term interest rates and international market comparisons. The Investment Manager takes all these factors into account when making any investment decisions as well as considering the financial standing of the potential investee company.

Interest rates on fixed income instruments are fixed at the time of purchase, as the fixed coupon payments are known, as are the final redemption proceeds. Consequentially, if a fixed income instrument is held until its redemption date, the total return achieved is unaltered from its purchase date. However, over the life of a fixed income instrument the market price at any given time will depend on the market environment at that time. Therefore, a fixed income instrument sold before its redemption date is likely to have a different price to its purchase level and a profit or loss may be incurred.

Interest rates on floating rate instruments vary throughout the life of the instrument based on movements in the applicable underlying base rate. Consequentially, the total return achieved on these positions changes throughout the life of position. In addition, over the life of the financial instrument, the market price of such instruments will depend on the market environment at that time. Therefore, a floating rate instrument sold before its redemption date is likely to have a different price to its purchase level and a profit or loss may be incurred.

Cash and cash equivalents

When the Company retains cash balances they are held in floating rate deposit accounts. As at 30 June 2021, cash held in sterling was £10,335,000. The benchmark rate which determines the interest payments received on sterling interest bearing cash balances is the UK bank base rate, which was 0.10% at 30 June 2021 (2020: 0.1%). The Company also holds an immaterial amount of cash in a range of other currencies, amounting to £1,092,000.

Financial liabilities

The Company has borrowed in sterling at a variable rate of interest based on the UK bank base rate. If the bank base rate increased by 0.50%, the impact on the profit or loss would have been a loss of £165,000 (2020: £155,000). If the bank base rate had decreased by 0.50%, the impact on the profit or loss would have been equal and opposite. The calculations are based on borrowings as at the respective Statement of Financial Position dates and are not representative of the year as a whole.

The Directors believe 0.50% is relevant based on observed interest rate adjustments in recent years.

At year end, the Company held bank loans of £33 million from Scotiabank, details of which are contained in note 11 on page 48.

19 Foreign Currency Risk

The Company invests in overseas securities and may hold foreign currency cash balances which give rise to currency risks. It is not the Company's policy to hedge this risk on a continuing basis but it may do so from time to time.

Foreign currency exposure at 30 June 2021 was as follows:

	2021 Investments £'000	2021 Cash £'000	2021 Accrued Income £'000	2021 Total £'000	2020 Investments £'000	2020 Cash £'000	2020 Accrued Income £'000	2020 Total £'000
Euro	22,083	817	202	23,102	16,514	304	187	17,005
Australian dollar	587	2	–	589	364	4	–	368
US dollar	56,403	238	1,310	57,951	43,854	123	818	44,795
Norwegian krone	1,454	16	34	1,504	1,363	–	38	1,401
Canadian dollar	686	18	4	708	322	4	3	329
Swedish Krona	1,110	–	5	1,115	–	–	–	–
	82,323	1,091	1,555	84,969	62,417	435	1,046	63,898

If the value of sterling had weakened against each of the currencies in the portfolio by 5% (2020: 5%), the impact on the profit or loss and the net asset value would have been positive £4.4 million (2020: positive £3.3 million).

If the value of sterling had strengthened by the same amount the impact on the profit or loss and the net asset value would have been negative £3.9 million (2020: negative £3.0 million).

The calculations are based on the portfolio valuation and accrued income balances at the balance sheet date and are not representative of the period as a whole and may not be reflective of future market conditions.

The Directors believe 5% is relevant based on the average market volatility in exchange rates in recent years.

20 Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Investment Manager has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. The carrying amounts of financial assets best represents the maximum risk exposure at the balance sheet date.

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

	2021 £'000	2020 £'000
Fixed income securities	216,602	188,849
Convertible bonds	1,560	10,483
Cash and cash equivalents	11,427	2,853
Amounts due from brokers	–	6,520
Amounts due on new share issuance	275	–
Accrued income	3,302	3,356
	233,166	212,061

Credit risk on fixed income securities and convertible bonds instruments is considered to be part of market price. The credit ratings for the fixed income securities held by the Company as at 30 June have been listed below:

Rating of fixed income securities	2021 %	2020 %
BB	–	–
BB-	4.0	2.7
B+	2.7	7.1
B	6.7	13.6
B-	2.7	5.2
CC	–	1.5
CCC	4.0	–
CCC+	4.0	8.6
CCC-	1.3	–
Not rated	74.6	61.3
	100.0	100.0

Source: 2021: S&P, 2020: S&P

The percentage above represents the value of fixed income securities of £216,602,000 (2020: £188,489,000) included in the Statement of Financial Position which are exposed to credit and counterparty risk by credit rating.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the acceptable credit quality of the brokers used. The Board monitors the quality of service provided by the brokers used to further mitigate this risk.

The Company's cash and most of the assets are held by BNP Paribas Securities Services S.C.A. Jersey Branch ("BNPP") and were previously held by HSBC Bank plc ("HSBC"). The Company still holds a residual cash balance with HSBC of £11,000 (2020: £142,000). The rating agency Moody's assigns a rating of A1 to HSBC and A2 to BNPP.

Should the credit quality or the financial position of BNPP or HSBC deteriorate significantly the Investment Manager will move the cash holdings to another bank.

There were no contingencies or guarantees outstanding at the balance sheet date.

21 Liquidity Risk

The Company's financial instruments include investments in unquoted investments which are not traded in an organised public market and which generally may be illiquid. As a result, the Company may not be able to liquidate these investments at an amount close to their fair value.

The Company's listed securities are considered to be readily realisable.

At the reporting date, the Company's investments were categorised as follows:

	2021 £'000	2020 £'000
Listed/Quoted on a recognised investment exchange	256,831	221,877
Prices via direct broker quotes	636	8,864
Total financial assets	257,467	230,741

The Company's liquidity risk is managed on an ongoing basis by the Investment Manager in accordance with policies and procedures in place as described in the Directors' Report. The Company's overall liquidity risks are monitored on a quarterly basis by the Board.

The Company maintains sufficient cash, has a short term bank loan facility and readily realisable securities to pay accounts payable and accrued expenses. The Company also maintains sufficient cash and readily realisable securities to meet any demand repayment on its overdraft facility.

All the Company's financial liabilities are due in one year or less.

22 Fair Value Hierarchy

International Financial Reporting Standard ("IFRS") 13 Fair Value Measurement requires an analysis of investments valued at fair value based on the reliability and significance of information used to measure their fair value. The level is determined by the lowest (that is the least reliable or independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

- Level 1 – investments quoted in an active market;
- Level 2 – investments whose fair value is based directly on observable current market prices or indirectly being derived from market prices;
- Level 3 – investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or based on observable market data.

Transfers in and out of the levels have been deemed to have occurred at the end of the reporting period.

Investments valued using stock market active prices are disclosed as Level 1 and this is the case for the quoted equity investments that the Company holds. Securities in Level 2 are priced using evaluated prices from a third party vendor, together with a price comparison made to evaluated secondary and tertiary third party sources, including broker quotes and benchmarks. As a result, these investments are disclosed as Level 2 - recognising that the fair values of these investments are not as visible as quoted investments and their higher inherent pricing risk.

Investments included as Level 3 are priced by the investment manager using a valuation technique reviewed by the Board taking into account, where appropriate, latest dealing prices, broker statements, valuation information and other relevant factors

Financial assets at fair value	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Fixed income securities	8,757	207,223	622	216,602
Equity shares	33,793	5,498	14	39,305
Convertible bonds	–	1,560	–	1,560
As at 30 June 2021	**42,550**	**214,281**	**636**	**257,467**

Financial assets at fair value	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Fixed income securities	4,512	175,853	8,484	188,849
Equity shares	31,029	–	380	31,409
Convertible bonds	4,038	6,445	–	10,483
As at 30 June 2020	**39,579**	**182,298**	**8,864**	**230,741**

If the market value of the Level 3 investments fell by 5% (2020: 5%), the impact on the profit or loss and the net asset value would have been negative £0.60 million (2020: negative £0.44 million). If the value of the Level 3 investments rose by the same amount, the effect would have been equal and opposite.

IFRS 13 requires disclosure, by class of financial instrument, if the effect of changing one or more input to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. The information used in determination of the fair value of Level 3 investments is chosen with reference to the specific underlying circumstances and position of the investee company. On that basis the Board believes that the impact of changing one or more of the inputs to reasonably possible alternative assumptions would not change the fair value significantly. The following shows a reconciliation from the beginning to the end of the year for fair value measurements in Level 3 of the fair value hierarchy.

Level 3 Financial Assets	2021 £'000	2020 £'000
Opening valuation	8,864	10,390
Purchases and corporate actions	–	2,866
Sales	(942)	(1,812)
Unrealised gains/(losses)	9,973	562
Realised losses	(10,436)	(1,632)
Transfers out of Level 3	(7,775)	(1,970)
Transfers in to level 3	952	460
	636	8,864

The fair value of Level 3 financial assets has been determined by reference to valuation techniques described in note 1(b) of these financial statements. The Level 3 investments at the year end are:

	2021 £'000		2020 £'000	
Aggregated Micro 8% 17/10/2036	–		7,081	(1)
JPI Media Group Senior Notes (Facility B)	–		709	(1)
Fara Holdco Limited NPV	–		161	(1)
JPI Media Group Equity	–		14	(1)
NT Rig Holdco 12% 20/12/2021	–		694	(1)
R.E.A Holdings Plc 7.5% 30/06/2022	622	(1)	–	
R.E.A Holdings Plc CW 15/07/2025	14	(2)	205	(2)
	636		8,864	

(1) Broker quote(s), low liquidity
(2) Marked to model

R.E.A Holdings plc 7.5% 30/06/2022 £622,000 (2020: £693,000) was transferred out of level 2 to level 3 due to low liquidity levels.

Aggregated Micro 8% 17/10/2036 £8,837,000 (2020: £7,081,000) was transferred out of level 3 to level 2 due to improved trading volumes and the Company's ability to source a price on a daily basis.

23 Transaction with the Investment Manager and Related Parties

The Board is considered a related party.

All transactions with related parties are carried out at an arm's length basis.

There are no other transactions with the Board other than aggregated remuneration for services as Directors as disclosed in the Directors' Remuneration Report on page 31 and as set out in note 4 to the financial statements. The beneficial interests of the Directors in the shares of the Company are disclosed on page 22. There are no outstanding balances to the Board at the year end.

Details of the fee arrangement with the Investment Manager is disclosed in note 3.

24 Subsequent Events

The Board has evaluated subsequent events for the Company through to 16 September 2021, the date the financial statements were available to be issued, and has concluded that the material events listed below do not require adjustment of the financial statements.

Share Issues

Following the year end the Company undertook a further six issues of shares issuing, in total, an additional 10,100,000 ordinary shares of no par value for total consideration of £5.54 million. As at the date of this report the issued share capital of the Company was 455,151,858 ordinary share of no par value.

Dividend declaration

The fourth interim dividend of 1.47 pence per share was announced on 22 July 2021 and paid on 31 August 2021 to Shareholders on the register on 30 July 2021, having an ex-dividend date of 29 July 2021.

Bank loan amendment

In advance of LIBOR ceasing to be published on 31 December 2021, the Company signed an amendment agreement with Scotiabank on 16 September 2021 that changes the benchmark reference rate from LIBOR to SONIA (or similar alternative reference rates for drawdowns in other permitted currencies).

Supplemental Information and Annual General Meeting

Glossary of Terms and Definitions

AIC Code	Association of Investment Companies of Corporate Governance published in February 2019.
Alternative Performance Measures ("APMs")	Alternative performance measures are numerical measures of the Company's current, historical or future performance, financial position or cash flows, other than financial measures defined or specified in the applicable financial framework. The Company's applicable financial framework includes IFRS and the AIC SORP.
Annual dividend per ordinary share	The total amount of dividends declared for every issued ordinary share over the Company's financial year.
Company	CQS New City High Yield Fund Limited
Dividend cover	Earnings per share divided by dividends per ordinary share expressed as a ratio.
Dividend yield	The annual dividend per share expressed as a percentage of the share price (bid price).
FRN	Floating Rate Note.
Gearing	The level of borrowing that the Company has undertaken. Represented by total assets (being total assets less current liabilities (excluding borrowings)) less all cash, expressed as a percentage of shareholders' funds (being the Net Asset Value of the Company) minus 100.
Net Asset Value or NAV and NAV per ordinary share	The value of total assets less total liabilities. Liabilities for this purpose included current and long-term liabilities. To calculate the net asset value per ordinary share, the net asset value divided by the number of shares in issue produces the net asset value per share.
Ongoing Charges Ratio (calculated using AIC guidance)	A measure of all operating costs incurred in the reporting period, calculated as a percentage of average net assets in that year. Operating costs exclude costs suffered within underlying investee funds, costs of buying and selling investments, interest costs, taxation and the costs of buying back or issuing ordinary shares.
Premium or discount	The amount by which the market price per share of an investment company is higher or lower than the net asset value per share. The discount or premium is expressed as a percentage of the net asset value per share.
Prior Charges	The name given to all borrowings including debentures, loan and short term loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index-linked securities, and all types of preference or preferred capital and the income shares of split capital trusts, irrespective of the time until repayment.
Revenue earnings per ordinary share	Revenue earnings (which includes dividends paid out during the year) divided by the weighted average number of ordinary shares in issue during the financial year, expressed as a percentage.
Revenue reserve per ordinary share (after recognition of annual dividends)	Revenue reserve (which includes dividends paid out during the year) divided by the number of ordinary shares at the balance sheet date, expressed as a percentage.
SME	Small and medium-sized enterprises.
Total Return	The return to shareholders calculated on a per share basis by adding dividends paid and declared in the period to the increase or decrease in the share price (bid) or net asset value. The dividends are assumed to have been reinvested in the form of ordinary shares or net assets.

Alternative Performance Measures

In accordance with ESMA Guidelines on APMs the Board has considered what APMs are included in the Annual Financial Report and Financial Statements which require further clarification.

The Company uses the following APMs (as described below) to present a measure of profitability which is aligned with the requirements of our investors and potential investors, to draw out meaningful data around revenues and earnings, and to provide additional information not required for disclosure under accounting standards:

- Premium or discount
- Annual dividend per ordinary share
- Dividend yield
- Dividend cover
- Revenue earnings per ordinary share
- Revenue reserves per ordinary share
- NAV total return
- Ordinary share price total return
- Ongoing charges ratio
- Gearing

All APMs relate to past performance. The following tables detail the methodology of the Company's APMs.

Premium or discount

The amount by which the market price per share of an investment company is higher or lower than the net asset value per share. The discount or premium is expressed as a percentage of the net asset value per share.

		2021	2020
Share price (bid price)	a	54.80p	47.40p
NAV per share	b	52.62p	47.52p
Premium/(Discount)	**(a-b)/b**	**4.14%**	**(0.25%)**

Annual dividend per ordinary share

The total amount of dividends declared for every issued ordinary share over the Company's financial year.

Dividend History	Rate	xd date	Record date	Payment date
First interim 2021	1.00p	22 October 2020	23 October 2020	30 November 2020
Second interim 2021	1.00p	28 January 2021	29 January 2021	26 February 2021
Third interim 2021	1.00p	29 April 2021	30 April 2021	28 May 2021
Fourth interim 20201	1.47p	29 July 2021	30 July 2021	31 August 2021
Annual dividend per ordinary share	**4.47p**			
First interim 2020	1.00p	24 October 2019	25 October 2019	29 November 2019
Second interim 2020	1.00p	23 January 2020	24 January 2020	28 February 2020
Third interim 2020	1.00p	23 April 2020	24 April 2020	29 May 2020
Fourth interim 2020	1.46p	23 July 2020	24 July 2020	28 August 2020
Annual dividend per ordinary share	**4.46p**			

Dividend yield

The annual dividend per ordinary share expressed as a percentage of the share price (bid price).

		2021	2020
Annual dividend per ordinary share	a	4.47p	4.46p
Share price (bid price)	b	54.80p	47.40p
Dividend yield	**a/b**	**8.16%**	**9.41%**

Dividend cover

Earnings per share divided by the annual dividend per ordinary share expressed as a ratio.

		2021	2020
Earnings per ordinary share	a	4.18p	4.59p
Annual dividend per ordinary share	b	4.47p	4.46p
Dividend cover	**a/b**	**0.94x**	**1.03x**

Revenue earnings per ordinary share

Revenue earnings (which includes dividends paid out during the year) divided by the weighted average number of ordinary shares in issue during the financial year, expressed as a percentage.

		2021	2020
Revenue earnings per ordinary share	a	£18,302,000	£19,666,000
Weighted average number of ordinary shares in issue	b	437,519,666	428,002,951
Revenue earnings per ordinary share	**(a/b)*100**	**4.18p**	**4.59p**

Revenue reserves per ordinary share

Revenue reserve (which includes dividends paid out during the year) divided by the number of ordinary shares at the balance sheet date, expressed as a percentage.

		2021	2020
Revenue reserve	a	£16,830,543	£17,982,000
Ordinary shares in issue	b	445,051,858	432,851,858
Revenue reserves per ordinary share	**(a/b)*100**	**3.78p**	**4.15p**

NAV and ordinary share price total return

The return to Shareholders calculated on a per share basis by adding dividends paid and declared in the period to the increase or decrease in the share price (bid) or net asset value. The dividends are assumed to have been reinvested in the form of ordinary shares or net assets.

2021	Annual dividend per share	NAV	Share price (bid)
30 June 2020	4.46p	47.52	47.40
30 June 2021	4.47p	52.62	54.80
Capital return		**10.73%**	**15.61%**
Effect of dividend reinvestment		10.65%	10.70%
Total return		**21.38%**	**26.31%**

2020	Annual dividend per share	NAV	Share price (bid)
30 June 2019	N/A	55.19	59.80
30 June 2020	4.46p	47.52	47.40
Capital return		**(13.89)%**	**(20.74)%**
Effect of dividend reinvestment		7.67%	6.60%
Total return		**(6.22)%**	**(14.14)%**

Ongoing charges

A measure of all operating costs incurred in the reporting period, calculated as a percentage of average net assets in that year. Operating costs exclude costs suffered within underlying investee funds, costs of buying and selling investments, interest costs, taxation and the costs of buying back or issuing ordinary shares.

		2021	2020
Average NAV	a	214,507,033	223,518,807
Operating expenses per Statement of Comprehensive Income		2,754,644	2,754,552
Ineligible expenses		(64,535)	(101,813)
Operating expenses	b	2,690,109	2,652,739
Ongoing charges figure (calculated using the AIC methodology)	**b/a**	**1.25%**	**1.19%**

Gearing

The level of borrowing that the Company has undertaken. Represented by total assets (being total assets less current liabilities (excluding borrowings)) less all cash, expressed as a percentage of Shareholders' funds (being the Net Asset Value of the Company) minus 100.

		2021 £'000	2020 £'000
Total assets		273,028	243,476
Current liabilities (excluding borrowings)		(5,301)	(6,797)
Cash and cash equivalents		(11,427)	(2,853)
Total	a	**256,300**	**233,826**
Net Asset Value	b	234,178	205,679
Gearing	**((a/b)-1)*100**	**9.45%**	**13.68%**

Explanation of AGM resolutions

Resolution 1: Annual Financial Statements and Directors' and Auditor's Reports

The Directors are required to lay before the AGM copies of the Company's most recent Annual Financial Statements and the Directors' Report and Auditor's Report in respect of the financial year. Shareholders will be given an opportunity at the meeting to ask questions on these items before being invited to receive them.

Resolution 2: Remuneration Report

As a Jersey domiciled Company, the Directors are not required to present the Company's remuneration policy to shareholders at the AGM. In line with best practice, however, the Directors present the Board's remuneration report as contained in the Company's Annual Financial Statements to shareholders for approval.

Resolution 3: Dividend Policy

To approve the Company's dividend policy as detailed on page 22.

Resolutions 4 to 8: Re-election, and appointment of Directors

In accordance with the recommendations of the AIC Code of Corporate Governance (the "AIC Code"), all Directors submit themselves for annual re-election at the AGM.

Resolution 9: Re-appointment and remuneration of the Auditor

Shareholders are requested to approve the reappointment of the Company's Auditor, KPMG Channel Islands Limited, each year and are asked to give Directors the authority to determine the Auditor's remuneration. KPMG Channel Islands Limited has expressed its willingness to continue as Auditor of the Company.

Resolution 10: Continuation Vote

In accordance with the Articles of Association this resolution proposes to continue the Company as an investment company. In the event that the resolution is not passed the Board would put forward further proposals at an extraordinary general meeting to liquidate or reconstruct the Company.

Resolution 11: Directors' Authority to Allot Shares

Under the Articles the Directors are required to seek a disapplication of pre-emption rights from shareholders before issuing new shares on a non pre-emptive basis. In order to continue with its programme of new share issues, your Board is therefore also proposing that the annual disapplication of preemption rights authority is given to the Directors so that they may continue to issue shares as and when appropriate is renewed. Accordingly, Resolution 11 proposes a renewal of the disapplication of the pre-emption rights in respect of 10% of the ordinary shares in issue, set to expire on the earlier of eighteen months from the date of the resolution or at the conclusion of the Annual General Meeting to be held in 2021.

New ordinary shares will not be issued at a price less than the prevailing net asset value per ordinary share, after taking into account any costs incurred by the Company in connection with such issue. Any issues of new ordinary shares will be carried out in accordance with the Listing Rules.

Resolution 12: Directors' Authority to Buy Back Shares

The current authority of the Company to make purchases of up to approximately 14.99% of its issued capital expires at the end of the Annual General Meeting and Resolution 12 seeks renewal of such authority until the next Annual General Meeting (or the expiry of fifteen months from the date of the passing of the resolution, if earlier). The maximum and minimum prices to be paid for shares are set out in Special Resolution 12. This power will be exercised only if, in the opinion of the Directors, a repurchase would result in an increase in net asset value per share and would be in the best interests of shareholders as a whole. Any shares purchased under this authority will either be held in treasury or cancelled.

Notice of Annual General Meeting

Notice is hereby given that the fifteenth Annual General Meeting of CQS New City High Yield Fund Limited will be held at 11.00 a.m. at IFC1, The Esplanade, St. Helier, Jersey, JE1 4BP on 2 December 2021 for the following purposes:

The Company would ask that any shareholders wishing to attend the Annual General Meeting please advise the Company Secretary by email or in writing as detailed in note 3 below.

To consider and, if thought fit, pass resolutions 1 to 10 as ordinary resolutions and resolutions 11 and 12 as special resolutions:

Ordinary Business

1. To receive the Annual Financial Statements of the Company and the reports of the Directors and Auditor for the year ended 30 June 2021.
2. To approve the Directors' Remuneration Report for the year ended 30 June 2021.
3. To approve the Company's Dividend Policy.
4. That Caroline Hitch be re-elected as a Director of the Company.
5. That Duncan Baxter be re-elected as a Director of the Company.
6. That Wendy Dorman be re-elected as a Director of the Company.
7. That John Newlands be re-elected as a Director of the Company.
8. That Ian Cadby be re-elected as a Director of the Company.
9. To re-appoint KPMG Channel Islands Limited as Independent Auditor and that the Directors be authorised to determine their remuneration.
10. That, pursuant to Article 164 of the Company's Articles of Association, the Company shall continue as an investment Company until the conclusion of the next Annual General Meeting of the Company.

Special Business

11. That, the Company be authorised to issue equity securities for cash, including by way of a sale of ordinary shares held by the Company as treasury shares, in such amount as represents up to 10% of the Company's issued share capital as at the date of the passing of this resolution, provided that such authorisation shall expire (unless and to the extent previously revoked, varied or renewed by the Company in general meeting by Ordinary Resolution) at the earlier of the conclusion of the annual general meeting of the Company to be held in 2021 or eighteen months from the date of this resolution but so that this power shall enable the Company to make offers or agreements before such expiry which would or might require equity securities to be issued after such expiry and the directors of the Company may issue equity securities in pursuance of any such offer or agreement as if such expiry had not occurred.
12. That, pursuant to Article 57 of the Companies (Jersey) Law 1991, the Company be generally and unconditionally authorised to make one or more market purchases of ordinary shares of no par value in the capital of the Company (ordinary shares) provided that:
    (i) the maximum aggregate number of ordinary shares authorised to be purchased shall be equal to 14.99% of the total issued share capital of the Company on the date at which the resolution is passed;
    (ii) the minimum price which may be paid for an ordinary share is 1p;
    (iii) the maximum price which may be paid for an ordinary share is an amount equal to the higher of:
        (a) 105% of the average of the middle market quotations for an ordinary share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased; and
        (b) the higher of (1) the price of the last independent trade in ordinary shares and (2) the highest current independent bid for ordinary shares on the London Stock Exchange's Main Market;
    (iv) any ordinary shares to be purchased may be cancelled or held as treasury shares in accordance with the Companies (Jersey) Law, 1991, provided that the Company shall not hold as treasury shares more than 10% of the aggregate number of ordinary shares in issue at any one time;
    (v) this authority expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or fifteen months from the date of the passing of this resolution, whichever is earlier;
    (vi) the Company may make a contract to purchase ordinary shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contract; and
    (vii) the Directors provide a statement of solvency in accordance with Articles 55 and 57 of the Companies (Jersey) Law, 1991.

By Order of the Board

BNP Paribas Securities Services
Company Secretary

16 September 2021

Notes:

1. Information about this meeting is available from the Company's website; www.ncim.co.uk
2. As a member who is entitled to attend and vote at this meeting you are entitled to appoint one or more proxies to exercise all or any of your rights to attend, speak and vote on your behalf. Such a proxy need not also be a member of the Company. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise the rights attached to any one share.
3. Any shareholder wishing to attend the Annual General Meeting can advise the company of their intention to do so by writing to the Compnay Secretary at BNP Paribas, IFC 1, The Esplanade, St Helier, Jersey, JE1 4BP or by email at jersey.bp2s.ncyf.cosec@bnpparibas.com, any attendance at the meeting is subject to the local COVID 19 restrictions in place.
4. A form of proxy is enclosed for use at the meeting. To be valid, the proxy card and any power of attorney or other authority, if any, under which it is signed, or a certified copy thereof must be lodged with the Company's registrar, Computershare Investor Services (Jersey) Limited, c/o The Pavilions, Bridgewater Road, Bristol BS99 6ZY at least 48 hours before the meeting.
5. Completion of the proxy card will not prevent a shareholder from attending the meeting and voting in person.
6. Pursuant to Article 40 of the Companies (Uncertificated Securities) (Jersey) Order 1999, the Company has specified that only those shareholders registered on the register of members of the Company as at 6.00 pm on 29 November 2021, or in the event that the meeting is adjourned, on the register of members 48 hours before the time of the meeting, shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that relevant time. Changes to entries on the register of members after 6.00 pm on 29 November 2021, or in the event that the meeting is adjourned to a later time, on the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend and vote at the meeting.

Electronic receipt of proxies

7. To appoint one or more proxies or give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the Company's agent (ID number 3RA50) no later than the 30 November 2021 at 11am. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 or the relevant provisions of the Companies (Uncertificated Securities) (Jersey) Order 1999. Instructions on how to vote through CREST can be found on the website www.euroclear.com

Report of the UK Investment Adviser Relating to Matters under the Alternative Investment Fund Managers' Directive (unaudited)

Risk management systems

The Company's Offering Memorandum sets out the risks to which the Company is exposed. The Investment Manager employs risk management disciplines which monitor the Company's portfolio and to quantify and manage the associated market and other risks. A permanent independent department has been established by the Investment Manager to perform the risk management function. The risk management and performance analysis team ("RMPA") is led by the Chief Risk Officer and is functionally and hierarchically separate from the operating units of the portfolio managers of the Company.

RMPA is a dedicated control function over the operating units of the Investment Manager and is not involved in the performance activities of the Company. RMPA has designed, documented and implemented effective risk management policies, processes and procedures in order to identify, quantify, analyse, monitor, report on and manage all material risks relevant to the Company's investment strategy. The systems include third party vendor applications such as Tradar, Sungard Front Arena and MSCI Risk Metrics, complemented with a number of proprietary applications.

Material changes to information required to be made available to investors of the Company

No material changes.

Assets of the Company subject to special arrangements arising from their illiquid nature

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

Remuneration

The AIFM has adopted a remuneration policy which meets the requirements of the Directive and has been in place for the current financial year of the Company. The variable remuneration period of the AIFM ended on 31 December 2020 and therefore does not coincide with the financial year of the Company.

The remuneration process is overseen by the remuneration committee (comprised predominately of independent non-executive parties). An internal working group encompassing senior management is responsible for gathering relevant information (both quantitative and qualitative) to evaluate the performance (both short and long term) of individuals, teams and the AIFM as a whole, against external market benchmarks and to utilise this to develop proposals for fixed and variable remuneration for all staff. The remuneration committee receives these proposals and the supporting information and is responsible for independently reviewing and scrutinising the proposals and evidence provided in line with the AIFM's stated objectives and developing its final recommendations for delivery to the governing body of the AIFM and other entities associated with the AIFM.

The variable remuneration of all staff in excess of a threshold, which includes those individuals categorised as remuneration code staff ("code staff"), is subject to the following:

- deferred payment of up to 50% of the variable remuneration for a period of 3 years,
- deferred remuneration is linked to funds managed by the AIFM ,
- the breaching of certain covenants may lead to forfeiture of deferred remuneration, and
- a claw-back provision of deferred remuneration in certain circumstances including future performance issues by the individuals.

The below information provides the total remuneration paid by the AIFM (and any delegates) for the year ending, December 31, 2020. This has been presented in line with the information available to the Company. There is no allocation made by the AIFM to each AIF and as such the disclosure reflects the remuneration paid to individuals who are partly or fully involved in the AIF, as well as staff of any delegate to which the firm has delegated portfolio management and/or risk management responsibilities in relation to the AIF.

Of the total AIFM remuneration paid of $92.9m for the year ending December 31, 2020 to 248 individuals (full time equivalent), $34.5m has been paid as fixed remuneration determined based upon the FCA guidance with the remainder being paid as variable remuneration.

The AIFM has assessed the members of staff whom it determines to be code staff in line with AIFMD as reflected in SYSC 19b.3.4R. Senior management and staff engaged in the control functions are identified based upon their roles and responsibilities within the AIFM and the delegates. With respect to investment professionals, in determining whether such staff are code staff, due consideration is taken of the allocated capital and trading limits that apply to the funds managed and whether the individuals report into and seek consent for investment decisions from others who are themselves code staff. There are 14.6 individuals (full time equivalent) who meet this definition and these individuals have collectively been compensated $44.5m.

Not all individuals are directly remunerated by the AIFM due to the structure of the AIFM entity, however in the interests of meeting the underlying requirement of this disclosure all staff involved have been assessed as if directly remunerated by the AIFM.

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Corporate Information

Registered Number
95691

Registered Office
CQS New City High Yield Fund Limited
IFC1
The Esplanade
St Helier
Jersey JE1 4BP

Directors
Caroline Hitch (Chair)
Duncan A H Baxter
Ian Cadby
Wendy Dorman
John E Newlands

Investment Manager
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Company Secretary and Administrator Custodian Bankers and Depositary
BNP Paribas Securities Services S.C.A. Jersey Branch
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The Esplanade
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Registrars
Computershare Investor Services (Jersey) Limited
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Channel Islands

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Jersey, JE4 9WG
Channel Islands

UK Legal Advisors
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London EC4M 7WS

Website
www.ncim.co.uk

ISIN
JE 00B1LZS514

Shareholder Information

Net Asset Value/Share Price

The net asset value of the Company's ordinary shares may be obtained by contacting CQS on 0207 201 6900 or by email at clientservice@cqsm.com or alternatively by visiting the Company's web site at www.ncim.co.uk.

CQS NEW CITY
HIGH YIELD FUND
LIMITED