

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt about the contents of this document or as to the action you should take, you are recommended immediately to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the UK Financial Services and Markets Act 2000 or, if outside the United Kingdom, another appropriately authorised financial adviser.

A copy of this document, which comprises a circular prepared in accordance with the listing rules made by the FCA under section 73A of FSMA, has been filed with the FCA in accordance with rule 9.6.1 of the Listing Rules.

Subject to the following paragraph, if you were a Shareholder and have sold or otherwise transferred all of your Ordinary Shares, please send this document, together with the accompanying interim financial report for the six months ended 31 December 2014, Prospectus and Form of Proxy, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

Save for the UK, no action has been taken or will be taken in any jurisdiction by the Company that would permit the offering of Ordinary Shares in any jurisdiction where action for that purpose is required. Similarly, no action has been taken to permit the distribution of the Prospectus in any jurisdiction outside the UK where such action is required to be taken. Accordingly, the distribution of this document and/ or the Prospectus and the offering of Ordinary Shares in jurisdictions other than the UK may be restricted. It is the responsibility of any person in possession of this document and/or the Prospectus to inform themselves about and observe any restrictions as to the offering of Ordinary Shares and the distribution of this document and/or the Prospectus under the laws and regulations of any relevant jurisdiction outside the UK in connection with any application for or purchase of Ordinary Shares, including obtaining any requisite governmental or other consent and observing any other formality prescribed in such jurisdiction. Any failure to comply with any such restrictions may constitute a violation of the securities laws of the jurisdiction concerned.

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# **NEW CITY HIGH YIELD FUND LIMITED**

*(Incorporated in Jersey with limited liability under the Companies (Jersey) Law 1991 with registered number 95691)*

**PROPOSALS TO  
EXTEND THE BOARD'S AUTHORITY TO ISSUE SHARES  
ON A NON-PRE-EMPTIVE BASIS PURSUANT TO  
A PLACING, OFFER FOR SUBSCRIPTION  
AND PLACING PROGRAMME  
AND  
CHANGE THE COMPANY'S NAME  
AND**

## **NOTICE OF EXTRAORDINARY GENERAL MEETING**

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A notice convening an extraordinary general meeting of the Company is set out in Part 3 of this document. The EGM will be held at Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW, on Monday, 30 March 2015 commencing at 12.30 p.m.

A Form of Proxy is enclosed for use by Shareholders. To be valid for use at the EGM, the Form of Proxy should be completed, signed and returned in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received by not later than 12.30 p.m. on Saturday, 28 March 2015. Shareholders who hold their Ordinary Shares in CREST may appoint a proxy by utilising the CREST electronic proxy appointment service in accordance with the procedures set out in the notes at the end of the notice convening the EGM in Part 3 of this document and such appointment should be transmitted as soon as possible and, in any event, so as to be received by not later than 12.30 p.m. on Saturday, 28 March 2015.

A Voting Instruction Card is enclosed for use by beneficial owners who hold Ordinary Shares through the New City Investment Managers Investment Plan and/or ISA. To be valid, the Voting Instruction Card should be completed, signed and returned in accordance with the instructions printed on it so as to arrive not later than 12.30 p.m. on Tuesday, 24 March 2015.

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## **EXECUTIVE SUMMARY**

**If you are in any doubt about the contents of this document or as to the action you should take, you are recommended immediately to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under FSMA or, if outside the United Kingdom, another appropriately authorised financial adviser.**

### **The Proposals**

- To issue up to 158,250,000 Ordinary Shares (equivalent to 50 per cent. of the Company's current issued share capital) for cash on a non-pre-emptive and NAV-accretive basis in connection with an initial placing and offer for subscription and the subsequent implementation of a new placing programme.
- To change the Company's name to "CQS New City High Yield Fund Limited" as the Directors believe a closer association with the Company's investment manager will allow for more effective marketing of the Ordinary Shares to a broader investor base.

### **Background to, and Reasons for, the Issues**

- Over the period from the Company's launch on 7 March 2007 to 3 March 2015, the Ordinary Shares traded at an average premium to their NAV (ex-income) of 5.6 per cent. and at a premium on 94.1 per cent. of the dealing days in that period. The Directors believe that the continuing demand for the Ordinary Shares reflected in their premium rating is largely attributable to the following:
  - the high dividend yield on the Ordinary Shares and the Company's progressive dividend policy;
  - the Company's focus on growing income and preserving capital;
  - the Company's strong investment performance, relative to both the Investment Association's global bond sector and its high yielding peers in the broader listed equity and bond space; and
  - the Company's flexible investment mandate, enabling it to diversify its sources of revenue and include some inflation protection within its portfolio.
- The Company has increased its issued share capital by 29.6 per cent. since 1 January 2014, principally through a placing programme. As at 3 March 2015, the Ordinary Shares were trading at a premium of 5.4 per cent. to their NAV (cum-income), reflecting the continuing demand for the Ordinary Shares.
- As a result of issues of Ordinary Shares already made in 2015, the scope for further issues has now become limited. The Directors believe it is desirable to retain the flexibility to issue additional Ordinary Shares on a non-pre-emptive and NAV-accretive basis through the implementation of a new placing programme.
- Non-institutional Shareholders have not been able to participate in the recent Ordinary Share issues, which, whilst being NAV-accretive for existing Shareholders, have taken place at discounts to the market price of the Ordinary Shares.
- As the implementation of a new placing programme requires the Company to publish a new prospectus, the Directors are taking this opportunity to implement an offer for subscription that will allow non-institutional Shareholders and other investors to acquire new Ordinary Shares at a premium of 3.0 per cent. to their NAV (cum-income) prevailing at the time of issue. The Directors are also proposing an initial placing of Ordinary Shares at the same price.

### **Benefits of the Issues**

The Directors believe that the principal benefits of the Issues are as follows:

- the issue of new Ordinary Shares:
  - at a premium to NAV (net of Issue Costs) will result in a modest NAV uplift for the Ordinary Shares already in issue;

- will increase the size of the Company, which should make it more attractive to a broader range of investors as well as spreading its operating costs over a larger capital base which should lead to a small reduction in the Company's ongoing charges per Ordinary Share; and
- should continue to improve liquidity in the market for the Ordinary Shares due to the increasing number of Ordinary Shares in issue;
- the Initial Placing and Offer will allow Shareholders and other investors to acquire Ordinary Shares at a 3.0 per cent. premium to their NAV (cum-income), which is lower than the weighted average premium of 3.6 per cent. at which new Ordinary Shares were issued, and the average premium of 6.0 per cent. at which the Ordinary Shares traded, over the period from 1 January 2014 to 3 March 2015;
- the Offer has been structured so that Shareholders and other investors can acquire new Ordinary Shares for their ISAs in both the 2014/2015 and 2015/2016 tax years; and
- the Placing Programme should enhance the Company's ability to issue new Ordinary Shares tactically to manage the premium at which the Ordinary Shares trade.

### **Initial Placing and Offer for Subscription**

- The Initial Placing and the Offer opened on 5 March 2015 and has two closing dates:
  - an initial closing date of 11.00 a.m. on Thursday, 26 March 2015 (for tax purposes, Ordinary Shares acquired pursuant to this closing will be treated as having been acquired in the 2014/2015 tax year); and
  - a final closing date of 11.00 a.m. on Wednesday, 15 April 2015 (for tax purposes, Ordinary Shares acquired pursuant to this closing will be treated as having been acquired in the 2015/2016 tax year).
- The price at which new Ordinary Shares will be issued pursuant to the Initial Placing and Offer is expected to be equivalent to a premium of 3.0 per cent. to the estimated NAV (cum-income) per Ordinary Share at the latest practicable date prior to the relevant issue. Accordingly, the Initial Placing and Offer will be NAV-accretive for existing Shareholders.
- The procedure for applying for Ordinary Shares pursuant to the Offer is set out in Part 10 of the Prospectus. To be valid, a completed Application Form accompanied by a cheque or banker's draft for the full amount due must be posted to Computershare Investor Services PLC, Corporate Actions Projects, Bristol BS99 6AH or (during normal business hours only) delivered by hand to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS13 8AE, so as to be received as soon as possible and, in any event:
  - in respect of the March Closing (i.e. applications using the Application Form set out in Part 11 of the Prospectus), by 11.00 a.m. on Thursday, 26 March 2015; and
  - in respect of the April Closing (i.e. applications using the Application Form set out in Part 12 of the Prospectus), by 11.00 a.m. on Wednesday, 15 April 2015.
- Subject to applicable subscription limits, Ordinary Shares issued pursuant to the Offer (but not the Initial Placing or the Placing Programme) are eligible for inclusion in ISAs. The annual ISA investment allowance is £15,000 for the tax year 2014/2015 and is expected to be £15,240 for the tax year 2015/2016.

### **Extraordinary General Meeting**

- Each of the Proposals requires to be approved by a special resolution of Shareholders. The requisite resolutions will be proposed at an extraordinary general meeting of the Company which has been convened for Monday, 30 March 2015 at 12.30 p.m., notice of which is set out in Part 3 of this document.
- The Board considers the Proposals to be in the best interests of the Company and its Shareholders as a whole. Accordingly, the Board is unanimously recommending that Shareholders vote in favour of the resolutions to be proposed at the EGM as the Directors intend to do in respect of their own beneficial holdings.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS<sup>1</sup>

### Extraordinary General Meeting

Latest time for receipt of Voting Instruction Cards	12.30 p.m. on Tuesday, 24 March 2015
Latest time for receipt of Forms of Proxy	12.30 p.m. on Saturday, 28 March 2015
Extraordinary General Meeting	12.30 p.m. on Monday, 30 March 2015

### Initial Placing and Offer<sup>2</sup>

Initial Placing and Offer opens	Thursday, 5 March 2015
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#### March Closing of Initial Placing and Offer

Latest time for receipt of Initial Placing commitments and Application Forms	11.00 a.m. on Thursday, 26 March 2015
Dealings commence in Ordinary Shares issued pursuant to Initial Placing and Offer	8.00 a.m. on Thursday, 2 April 2015
CREST accounts credited with Ordinary Shares issued pursuant to Initial Placing and Offer in uncertificated form	Thursday, 2 April 2015
Share certificates despatched in respect of Ordinary Shares issued pursuant to Initial Placing and Offer in certificated form	By Monday, 13 April 2015

#### April Closing of Initial Placing and Offer

Latest time for receipt of Initial Placing commitments and Application Forms	11.00 a.m. on Wednesday, 15 April 2015
Dealings commence in Ordinary Shares issued pursuant to Initial Placing and Offer	8.00 a.m. on Wednesday, 22 April 2015
CREST accounts credited with Ordinary Shares issued pursuant to Initial Placing and Offer in uncertificated form	Wednesday, 22 April 2015
Share certificates despatched in respect of Ordinary Shares issued pursuant to Initial Placing and Offer in certificated form	By Wednesday, 29 April 2015

### Placing Programme<sup>4</sup>

Placing Programme opens	Thursday, 23 April 2015
Placing Programme closes	Friday, 4 March 2016 (or any earlier date on which it is fully subscribed)

<sup>1</sup> All references in this document to times are to the time in London. All times and dates in the "Expected Timetable of Principal Events" and elsewhere in this document are subject to change and may be extended or brought forward by the Company (with the agreement of Cantor Fitzgerald and the Investment Manager). Any such change will be notified to investors by the Company making an announcement via a Regulatory Information Service.

<sup>2</sup> The Issues are conditional on, inter alia, resolution 1 set out in the notice convening the EGM being passed.

## **PART 1**

### **LETTER FROM THE CHAIRMAN**

#### **New City High Yield Fund Limited**

*(Incorporated in Jersey under The Companies (Jersey) Law 1991 with registered number 95691)*

*Directors*

J G West (*Chairman*)

G D P Breeze

A F Carey

A J R Collins

G D Ross

*Registered Office*

Ordnance House

31 Pier Road

St. Helier

Jersey JE4 8PW

5 March 2015

*To Shareholders and Beneficial Owners of Ordinary Shares through the New City Investment Managers Investment Plan and/or ISA*

**Dear Sir/Madam**

#### **PROPOSALS TO EXTEND THE BOARD'S AUTHORITY TO ISSUE SHARES ON A NON-PRE-EMPTIVE BASIS AND CHANGE THE COMPANY'S NAME**

##### **Introduction**

As announced on 25 February 2015, your Board is seeking an extension of its authority to issue Ordinary Shares on a non-pre-emptive basis (that is, without first offering them to existing Shareholders) in order to meet the continuing demand for the Ordinary Shares, which is reflected in the premium at which they have been trading. Your Board is proposing that the extended authority should apply to the issue of up to 158,250,000 Ordinary Shares (equivalent to 50 per cent. of the Company's current issued share capital) and, if granted, it is intended to be used in connection with an initial placing and offer for subscription and the subsequent implementation of a new placing programme, details of all of which are set out in the Prospectus which has been published by the Company today. A copy of the Prospectus is enclosed with this document.

Your Directors are also proposing to change the Company's name to "CQS New City High Yield Fund Limited" as we believe a closer association with the Company's investment manager will allow for more effective marketing of the Ordinary Shares to a broader investor base.

In accordance with the Company's articles of association and the Listing Rules, the proposed disapplication of Shareholders' pre-emption rights requires to be approved by a special resolution of Shareholders. Jersey law also requires the proposed change to the Company's name to be approved by a special resolution of Shareholders.

The purpose of this document is to explain how the background to, reasons for and benefits of the Proposals and to convene an extraordinary general meeting of the Company to seek Shareholders' approval of them. The notice convening that meeting, which will be held on Monday, 30 March 2015 at 12.30 p.m., is set out in Part 3 of this document.

## Background to, and Reasons for, the Issues

Over the period from the Company's launch on 7 March 2007 to 3 March 2015, the Ordinary Shares traded at an average premium to their NAV (ex-income)<sup>3</sup> of 5.6 per cent.<sup>4</sup> and at a premium on 94.1 per cent.<sup>4</sup> of the dealing days in that period (the days on which the Ordinary Shares traded at a discount occurred mainly during the financial crisis of 2007/2008). The Directors believe that the continuing demand for the Ordinary Shares reflected in their premium rating is largely attributable to the following:

- **High dividend yield and progressive dividend policy:** The Company has increased the annual dividends (payable gross quarterly) in respect of each financial year since its launch in 2007 and has significant revenue reserves (0.82 times the annual dividend paid in respect of its financial year ended 30 June 2014).

Over the period from the Company's launch to 3 March 2015, the average dividend yield on the Ordinary Shares was 7.0 per cent.<sup>4</sup> As at 3 March 2015, the yield on the Ordinary Shares was 6.8 per cent.<sup>4</sup>, making the Company one of the highest yielding London-listed investment companies out of a universe of more than 400 companies.

- **Focus on growing income and preserving capital:** The Company's overriding aim is to grow its income while preserving its capital. Accordingly, the Investment Manager's focus is on quality issuers with stable and reliable cashflows.
- **Strong investment performance:** Compared to the Investment Association's global bond sector, on a NAV total return basis, as at 3 March 2015, the Company ranked 14<sup>th</sup> out of 69 funds since its launch in 2007, 3<sup>rd</sup> out of 96 over the last five years and 7<sup>th</sup> out of 119 funds over the last three years<sup>4</sup>.
- **Flexible investment mandate with diversified sources of revenue and some inflation protection:** The Investment Manager is not benchmark constrained and has freedom to invest in a diverse range of sectors, geographies, asset classes (bonds, preference shares, floating rate notes, convertibles and equities) and issuers.

The Company's portfolio has a degree of inflation protection directly through floating rate notes (2.9 per cent. of its portfolio as at 3 March 2015) and convertibles and equities (together, 12.8 per cent. of its portfolio as at 3 March 2015) and indirectly through non-sterling exposure (29.3 per cent. its portfolio as at 3 March 2015). The shorter duration of high yielding bonds held by the Company also means that interest rate risk is lower compared to funds with investment grade bond portfolios.

In response to the continuing demand for the Ordinary Shares, having regard to the benefits of enlarging the Company and with the aim of assisting the Company in managing the premium at which the Ordinary Shares trade, the Company implemented a placing programme in January 2014 to issue up to 61,059,834 Ordinary Shares (equivalent to 25 per cent. of its then issued share capital) on a non-pre-emptive basis. Ordinary Shares were issued on a number of occasions under that placing programme, which was closed in November 2014 as all the Ordinary Shares available for issue pursuant to it had been issued.

At the Company's annual general meeting in December 2014, Shareholders renewed the Directors' standard authority to issue, on a non-pre-emptive basis, Ordinary Shares equivalent to 10 per cent. of the Ordinary Shares in issue at the date of the annual general meeting. Since then, the Company has issued 11,250,000 Ordinary Shares, equivalent to 3.7 per cent. of the Company's issued share capital at the time that the standard disapplication authority was renewed.

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<sup>3</sup> Prior to June 2008 (and in accordance with industry practice), the Company only calculated the NAV per Ordinary Share (ex-income) on a daily basis.

<sup>4</sup> Source: Morningstar.

The issues of Ordinary Shares referred to in the previous two paragraphs took place at prices representing a weighted average premium of 3.6 per cent. to the NAV (cum-income) per Ordinary Share prevailing at the time of the relevant issue. Over the period from 1 January 2014 to 3 March 2015, the Ordinary Shares traded at an average premium to their NAV (cum-income) of 6.0 per cent.<sup>5</sup> and, as at 3 March 2015, were trading at a premium of 5.4 per cent. to their NAV (cum-income)<sup>5</sup>.

Under FSMA and the Prospectus Rules, the Company may not issue, over a period of 12 months, Ordinary Shares representing 10 per cent. or more of the number already issued and admitted to trading without the issue of a prospectus. As a result of issues of Ordinary Shares already made in 2015, the scope for further issues has now become limited. In view of the continuing demand for the Ordinary Shares, the Directors believe it is desirable to retain the flexibility to issue additional Ordinary Shares on a non-pre-emptive and NAV-accretive basis through the implementation of a new placing programme.

Furthermore, under FSMA and the Prospectus Rules:

- Ordinary Shares issued pursuant to placing programmes cannot be offered to the public, which includes our non-institutional Shareholders; and
- new Ordinary Shares cannot be offered to the public, including our non-institutional Shareholders, without first publishing a prospectus.

Accordingly, our non-institutional Shareholders have not been able to participate in the recent Ordinary Share issues, which, whilst being NAV-accretive for existing Shareholders, have taken place at discounts to the market price of the Ordinary Shares.

As the implementation of a new placing programme requires the Company to publish a new prospectus, the Directors are taking this opportunity to implement an offer for subscription that will allow our non-institutional Shareholders and other investors to acquire new Ordinary Shares at a premium of 3.0 per cent. to their NAV (cum-income) prevailing at the time of issue. The Directors are also proposing an initial placing of Ordinary Shares at the same price.

## **Benefits of the Issues**

The Directors believe that the principal benefits of the Issues are as follows:

- the issue of new Ordinary Shares:
  - at a premium to NAV (net of Issue Costs) will result in a modest NAV uplift for the Ordinary Shares already in issue;
  - will increase the size of the Company, which should make it more attractive to a broader range of investors as well as spreading its operating costs over a larger capital base which should lead to a small reduction in the Company's ongoing charges per Ordinary Share; and
  - should continue to improve liquidity in the market for the Ordinary Shares due to the increasing number of Ordinary Shares in issue;
- the Initial Placing and Offer will allow Shareholders and other investors to acquire Ordinary Shares at a premium of 3.0 per cent. to their NAV (cum-income), which is lower than:
  - the weighted average premium of 3.6 per cent.<sup>5</sup> at which new Ordinary Shares were issued; and
  - the average premium of 6.0 per cent.<sup>5</sup> at which the Ordinary Shares traded; over the period from 1 January 2014 to 3 March 2015;
- the Offer has been structured so that Shareholders and other investors can acquire new Ordinary Shares for their ISAs in both the 2014/2015 and 2015/2016 tax years; and

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<sup>5</sup> Source: Morningstar.

- the Placing Programme should enhance the Company's ability to issue new Ordinary Shares tactically to manage the premium at which the Ordinary Shares trade.

## **Further Details of the Issues**

### ***Introduction***

The Initial Placing and the Offer, which are not underwritten, opened on 5 March 2015 and have two closing dates:

- an initial closing date of 11.00 a.m. on Thursday, 26 March 2015; and
- a final closing date of 11.00 a.m. on Wednesday, 15 April 2015.

For tax purposes, Ordinary Shares acquired pursuant to the Initial Placing or Offer will be treated as having been acquired:

- in respect of the March Closing, in the 2014/2015 tax year; and
- in respect of the April Closing, in the 2015/2016 tax year.

Investors may apply for Ordinary Shares to be issued only in respect of the March Closing or the April Closing or for Ordinary Shares to be issued in respect of both the March Closing and the April Closing.

The Placing Programme will open on Thursday, 23 April 2015 and will close on Friday, 4 March 2016 (or any earlier date on which it is fully subscribed).

The maximum number of Ordinary Shares that may be issued pursuant to:

- the Initial Placing and Offer will be:
  - in respect of the March Closing, 158,250,000 Ordinary Shares; and
  - in respect of the April Closing, such number of Ordinary Shares as shall equal 158,250,000 Ordinary Shares less the number of Ordinary Shares issued pursuant to the March Closing; and
- the Placing Programme will be such number of Ordinary Shares as shall equal 158,250,000 Ordinary Shares less the aggregate number of Ordinary Shares issued pursuant to the Initial Placing and Offer.

The Issues have not been, and will not be, underwritten and, accordingly, the maximum number of new Ordinary Shares available under the Issues should not be taken as an indication of the final number of new Ordinary Shares that will be issued pursuant to them.

### ***Issue Price***

The price at which new Ordinary Shares will be issued pursuant to the Initial Placing and Offer is expected to be equivalent to a premium of 3.0 per cent. to the estimated NAV (cum-income) per Ordinary Share at the latest practicable date prior to the relevant issue. Accordingly, the Initial Placing and Offer will be NAV-accretive for existing Shareholders.

Ordinary Shares will only be issued pursuant to the Placing Programme at a price per share that, after Issue Costs, will result in such issues being NAV-accretive for existing Shareholders.

### ***ISAs***

Subject to applicable subscription limits, Ordinary Shares issued pursuant to the Offer (but not the Initial Placing or the Placing Programme) are eligible for inclusion in ISAs. The annual ISA investment allowance is £15,000 for the tax year 2014/2015 and is expected to be £15,240 for the tax year 2015/2016.

### ***Conditions***

Each Issue will be conditional on:

- resolution 1 set out in the notice convening the EGM being passed;
- the Placing Agreement becoming and remaining unconditional (save only for admission of the ordinary Shares being issued to the premium segment of the Official List and to trading on the London Stock Exchange's Main Market) and neither the Placing

Agreement nor Cantor Fitzgerald's obligations thereunder having been terminated in accordance with the terms of the Placing Agreement prior to such admission; and

- admission of the Ordinary Shares being issued to the premium segment of the Official List and to trading on the London Stock Exchange's Main Market by 8.00 a.m. on such date as the Company and Cantor Fitzgerald may agree in relation to such issue.

### **General**

Pursuant to the Placing Agreement, Cantor Fitzgerald has agreed to use its reasonable endeavours to procure commitments to subscribe for Ordinary Shares at the relevant Issue Price pursuant to the Initial Placing on the terms and subject to the conditions set out in the Placing Agreement and the Prospectus and is seeking such commitments from institutional investors, private client investment managers and private client brokers.

The Placing Programme is flexible and may have a number of closing dates in order to provide the Company with the ability to issue Ordinary Shares over a period of time. The issue of new Ordinary Shares pursuant to the Placing Programme will be at the discretion of the Directors. The Placing Programme will be implemented through Cantor Fitzgerald on the terms and subject to the conditions set out in the Placing Agreement and the Prospectus.

No fractions of Ordinary Shares will be issued pursuant to the Issues and entitlements to new Ordinary Shares pursuant to the Issues will be rounded down to the nearest whole number.

Ordinary Shares issued pursuant to the Issues will be issued fully paid and in registered form, and may be issued in uncertificated form or in certificated form. Ordinary Shares issued in uncertificated form will be credited to the relevant CREST accounts on a delivery versus payment basis on the date on which dealings in such shares commence on the Main Market. Share certificates in respect of new Ordinary Shares issued in certificated form are expected to be despatched within five business days after the date on which dealings in such shares commence on the Main Market. Temporary documents of title will not be issued pending the despatch of any definitive certificates for new Ordinary Shares issued in certificated form and, pending such despatch, transfers of new Ordinary Shares in certificated form will be certified against the Company's register of members. Dealings in new Ordinary Shares in advance of the crediting of the relevant CREST accounts or the issue of certificates will be at the risk of the persons concerned.

New Ordinary Shares issued pursuant to the Issues will rank *pari passu* in all respects with the existing issued Ordinary Shares (save for any dividends or other distributions declared, made or paid on the Ordinary Shares by reference to a record date prior to the allotment of the relevant new Ordinary Shares).

The fixed costs of the Issues are estimated to be approximately £0.14 million (these will be payable irrespective of whether any Ordinary Shares are issued pursuant to the Issues), equivalent to 0.08 per cent. of the NAV (cum income) per Ordinary Share as at 3 March 2015. The total net proceeds of the Issues will depend on the number of new Ordinary Shares issued pursuant to the Issues, the Issue Price of such new Ordinary Shares and the aggregate costs and expenses of the Issues. The net proceeds of the Issues will be invested in accordance with the Company's investment objective and policy.

Full details of the Issues are set out in the accompanying Prospectus.

### **Proposed Change of Name**

CQS Asset Management Limited is the Company's investment adviser and AIFM. The CQS Group is well known as an asset management firm with a speciality in fixed interest securities. Your Directors believe that the Company would benefit from being more closely associated with the CQS Group's expertise and that prefacing the Company's name with "CQS" name will allow for more effective marketing of the Ordinary Shares to a broader investor base. The Board is proposing, therefore, that the Company's name should be changed to "CQS New City High Yield Fund Limited".

## **EGM**

A notice convening an extraordinary general meeting of the Company, to be held at Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW, on Monday, 30 March 2015 commencing at 12.30 p.m., is set out in Part 3 of this document.

The following special resolutions will be proposed at the EGM:

- **Resolution 1 – disapplication of Shareholders' pre-emption rights:** If passed, this resolution will authorise the Directors to allot up to 158,250,000 Ordinary Shares (equivalent to 50 per cent. of the Company's current issued share capital) on a non-pre-emptive basis. If this resolution is passed, the authority will in addition to the unutilised element of the standard 10 per cent. disapplication authority approved by Shareholders at the Company's annual general meeting in December 2014 and will expire on 27 June 2015.

Whilst 50 per cent. is higher than the disapplication of pre-emption rights authority ordinarily recommended by corporate governance best practice and any use of the authority will dilute existing Shareholders' voting rights<sup>6</sup>, the Directors believe that taking a larger than normal authority is justified in the present circumstances. The Directors intend to issue Ordinary Shares pursuant to the Issues when they consider that it is in the best interests of existing Shareholders to do so and to satisfy continuing demand for the Ordinary Shares.

- **Resolution 2 – change of name:** If passed, this resolution will approve the change of the Company's name to "CQS New City High Yield Fund Limited", which is expected to become effective on 31 March 2015.

In order to be passed, a special resolution requires at least two-thirds of the votes cast to be in favour of it. All Shareholders are entitled to attend and vote at the EGM. In accordance with the Company's articles of association, all Shareholders present in person or by proxy shall upon a show of hands have one vote and upon a poll shall have one vote in respect of each Ordinary Share held.

The quorum for the EGM is two Shareholders present in person or by proxy (including a Shareholder present through a corporate representative).

## **Action to be Taken**

### **EGM**

#### *Shareholders*

If you are a Shareholder, you will find enclosed with this document a Form of Proxy for use at the EGM. Please complete the Form of Proxy and return it by post, in the envelope provided, as soon as possible and, in any event, so as to be received not later than 12.30 p.m. on Saturday, 28 March 2015.

If you hold your Ordinary Shares in CREST, you may appoint a proxy by utilising the CREST electronic proxy appointment service in accordance with the procedures set out in the notes at the end of the notice convening the EGM in Part 3 of this document and such appointment should be transmitted as soon as possible and, in any event, so as to be received by not later than 12.30 p.m. on Saturday, 28 March 2015.

The completion and return of a Form of Proxy or the appointment of a proxy utilising the CREST electronic proxy appointment service will not prevent a Shareholder from attending the EGM and voting in person if they wish to do so.

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<sup>6</sup> Assuming that the authority is used in full and 158,250,000 new Ordinary Shares are issued to new investors, this will result in a dilution of approximately 33.3 per cent. of existing Shareholders' voting control of the Company.

### *Beneficial Owners of Ordinary Shares Through the New City Investment Managers Investment Plan and/or ISA*

If you hold your Ordinary Shares through the New City Investment Managers Investment Plan and/or ISA, you will find enclosed with this document a Voting Instruction Card for use in connection with the EGM.

Please return the completed Voting Instruction Card by post, in the envelope provided, as soon as possible and, in any event, so as to be received not later than 12.30 p.m. on Tuesday, 24 March 2015.

### **Offer for Subscription**

**If you are interested in acquiring Ordinary Shares pursuant to the Offer, you are strongly recommended to read and consider the Prospectus in its entirety and, in particular, pages 18 to 26 of the Prospectus, which set out the principal risk factors associated with an investment in the Company. You are also recommended to seek your own independent financial advice from their stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under FSMA or, if outside the United Kingdom, another appropriately authorised financial adviser.**

The minimum subscription amount for new Ordinary Shares pursuant to the Offer (in respect of each closing date) is £1,000 and, if the application is for a higher amount, the amount must be a multiple of £1,000. Applications to subscribe for Ordinary Shares pursuant to the Offer will only be accepted on the terms and subject to the conditions set out in the Prospectus, including the terms and conditions of the Offer set out in Part 9 of the Prospectus.

The procedure for applying for Ordinary Shares pursuant to the Offer is set out in Part 10 of the Prospectus. To be valid, a completed Application Form accompanied by a cheque or banker's draft for the full amount due must be posted to Computershare Investor Services Plc, Corporate Actions Projects, Bristol BS99 6AH or (during normal business hours only) delivered by hand to, Computershare Investor Services Plc, The Pavilions, Bridgwater Road, Bristol, BS13 8AE, so as to be received as soon as possible and, in any event:

- in respect of the March Closing (i.e. applications using the Application Form set out in Part 11 of the Prospectus), by 11.00 a.m. on Thursday, 26 March 2015; and
- in respect of the April Closing (i.e. applications using the Application Form set out in Part 12 of the Prospectus), by 11.00 a.m. on Wednesday, 15 April 2015.

Investors who apply for Ordinary Shares pursuant to the Offer using more than one Application Form must submit a separate cheque or banker's draft for the amount due in respect of each Application Form.

### **Recommendation**

Your Board considers the Proposals to be in the best interests of the Company and its Shareholders as a whole. Accordingly, your Board unanimously recommends that you vote in favour of the resolutions to be proposed at the EGM as your Directors intend to do in respect of their own beneficial holdings of 5,559,104 Ordinary Shares, representing 1.76 per cent. of the Ordinary Shares in issue at the date of this document.

This letter is not a recommendation to you to participate in any Issue. Whether or not you choose to do so will depend on, among other things, your view of the Company's prospects and your own individual circumstances. If you are in any doubt about whether or not to participate in an Issue, you are recommended immediately to seek your own independent financial advice.

Yours faithfully

James G West  
*Chairman*

## PART 2

### DEFINITIONS AND GLOSSARY OF TERMS

The words and expressions listed below have the meanings set out opposite them throughout this document except where the context otherwise requires:

<b>"Application Form"</b>	the application form for use in connection with the March Closing of the Offer set out in Part 11 of the Prospectus and/or the application form for use in connection with the April Closing of the Offer set out in Part 12 of the Prospectus (as the context may require)
<b>"April Closing"</b>	the final closing date for placing commitments pursuant to the Initial Placing and applications pursuant to the Offer, being 11.00 a.m. on Wednesday, 15 April 2015
<b>"Board"</b>	the board of directors of the Company (or any duly authorised committee thereof) from time to time
<b>"Cantor Fitzgerald"</b>	Cantor Fitzgerald Europe
<b>"certificated form"</b>	not in uncertificated form
<b>"Company"</b>	New City High Yield Fund Limited
<b>"CQS Group"</b>	CQS Cayman Limited Partnership and its subsidiary undertakings from time to time, including the Investment Manager
<b>"CREST"</b>	the computerised settlement system enabling securities to be held otherwise than by certificates and transferred otherwise than by written instrument and operated by Euroclear UK & Ireland Limited
<b>"Directors"</b>	the directors of the Company from time to time
<b>"discount"</b>	in the context of an Ordinary Share, the amount by which its share price is lower than its NAV (expressed as a percentage of the NAV per Ordinary Share)
<b>"EGM"</b>	the extraordinary general meeting of the Company convened for Monday, 30 March 2015, commencing at 12.30 p.m. (or any adjournment of that meeting), and notice of which is set out in Part 3 of this document
<b>"FCA"</b>	the UK Financial Conduct Authority
<b>"Form of Proxy"</b>	the form of proxy for use by Shareholders in connection with the EGM
<b>"FSMA"</b>	the UK Financial Services and Markets Act 2000
<b>"Initial Issue Price"</b>	(i) in respect of the March Closing of the Initial Placing and Offer, the higher of (a) a premium of 3.0 per cent. to the estimated NAV (cum-income) per Ordinary Share and (b) 90 per cent. of the middle market price of the Ordinary Shares, in each case at the close of business on Friday, 27 March 2015 and (ii) in respect of the April Closing of the Initial Placing and Offer, the higher of (a) a premium of 3.0 per cent. to the estimated NAV (cum-income) per Ordinary Share and (b) 90 per cent. of the middle market price of the Ordinary Shares, in each case at the close of business on Thursday, 16 April 2015
<b>"Initial Placing"</b>	the placing of new Ordinary Shares at the Initial Issue Price on the terms and subject to the conditions set out in the Prospectus

<b>"Investment Manager"</b>	CQS Asset Management Limited (trading as New City Investment Managers)
<b>"ISA"</b>	an individual savings account maintained in accordance with the UK Individual Savings Account Regulations 1998 (as amended)
<b>"Issue Costs"</b>	the costs and expenses incurred or payable by the Company in connection with the Issues or any issue of Ordinary Shares pursuant to the Issues (as the context may require and in all cases excluding the costs and expenses of preparing the Prospectus), and references to the <b>"Issue Costs per new Ordinary Share"</b> shall mean the Issue Costs incurred or payable by the Company in relation to an issue of new Ordinary Shares pursuant to the Issues (excluding the costs and expenses of preparing the Prospectus) divided by the number of such shares issued on that occasion
<b>"Issue Price"</b>	the Initial Issue Price and/or the Placing Programme Price (as the context may require)
<b>"Issues"</b>	the issue of up to 158,250,000 Ordinary Shares pursuant to the Initial Placing, the Offer for Subscription and/or the Placing Programme (as the context may require)
<b>"Listing Rules"</b>	the listing rules made by the FCA under Part VI of FSMA
<b>"London Stock Exchange's Main Market" or "Main Market"</b>	London Stock Exchange plc's market for listed securities
<b>"March Closing"</b>	the initial closing date for placing commitments pursuant to the Initial Placing and applications pursuant to the Offer, being 11.00 a.m. on Thursday, 26 March 2015
<b>"NAV"</b>	in relation to (i) the Company, the value of the assets of the Company less its liabilities and (ii) the Ordinary Shares, the value of the assets of the Company less its liabilities divided by the number of Ordinary Shares in issue and references to the NAV being <b>"cum-income"</b> or <b>"ex-income"</b> shall be to that NAV being calculated including or excluding, as appropriate, the current financial year income
<b>"Offer" or "Offer for Subscription"</b>	the offer for subscription to the public of Ordinary Shares at the Initial Issue Price on the terms and subject to the conditions set out in the Prospectus
<b>"Official List"</b>	the list maintained by the UK Listing Authority pursuant to Part VI of FSMA
<b>"Ordinary Shares"</b>	ordinary shares of no par value in the capital of the Company
<b>"Placing Agreement"</b>	the placing agreement amongst the Company, CQS Cayman Limited Partnership, Cantor Fitzgerald and BDO LLP (acting as the Company's sponsor in connection with the Issues), details of which agreement are set out in paragraph 8.3 of Part 6 of the Prospectus

<b>"Placing Programme Price"</b>	<p>in relation to a new Ordinary Share to be issued pursuant to the Placing Programme, the price payable for that share, which shall not be:</p> <p>(i) less than the higher of:</p> <p>(a) the aggregate of (i) the estimated prevailing NAV (cum-income) per Ordinary Share at the time the proposed issue is agreed and (ii) the Issue Costs per new Ordinary Share; and</p> <p>(b) 90 per cent. of the middle market price of the Ordinary Shares at the time the proposed issue is agreed; or</p> <p>(ii) higher than the best offer price per Ordinary Share at the time the proposed issue is agreed;</p> <p>and, for the avoidance of doubt, such price will be determined at the time of each proposed issue of Ordinary Shares pursuant to the Placing Programme</p>
<b>"Placing Programme"</b>	the programme of placings and/or tap issues of new Ordinary Shares at the Placing Programme Price on the terms and subject to the conditions set out in the Prospectus
<b>"premium"</b>	in the context of an Ordinary Share, the amount by which its share price is higher than its NAV (expressed as a percentage of the NAV per Ordinary Share)
<b>"Prospectus"</b>	the prospectus relating to the Company prepared in accordance with the Prospectus Rules in connection with the Issues and dated 5 March 2015, a copy of which accompanied this document
<b>"Prospectus Rules"</b>	the prospectus rules made by the FCA under section 73A of FSMA
<b>"Proposals"</b>	the proposals (i) to disapply Shareholders' pre-emption rights in relation to the issue of up to 158,250,000 Ordinary Shares and (ii) to change the Company's name, details of which are set out in Part 1 of this document
<b>"rating"</b>	in the context of the Company or its Ordinary Shares, the price at which the Ordinary Shares trade relative to their NAV
<b>"Shareholders"</b>	holders of Ordinary Shares
<b>"UK Listing Authority"</b>	the FCA acting in its capacity as the competent authority for the purpose of admissions to the Official List
<b>"uncertificated form"</b>	recorded in the Company's register of members as being held in uncertificated form in CREST and title to which may be transferred by means of CREST
<b>"United Kingdom" or "UK"</b>	the United Kingdom of Great Britain and Northern Ireland
<b>"Voting Instruction Card"</b>	the letter of direction for use by beneficial owners of Ordinary Shares through the New City Investment Managers Investment Plan and/or ISA in connection with the EGM

Note: All references in this document to 3 March 2015 should be regarded as being references to the latest practicable date prior to the publication of this document.

## PART 3

### NOTICE OF EXTRAORDINARY GENERAL MEETING

#### New City High Yield Fund Limited

(Incorporated in Jersey under The Companies (Jersey) Law 1991 with registered number 95691)

Notice is hereby given that an extraordinary general meeting of New City High Yield Fund Limited will be held at Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW, on Monday, 30 March 2015 commencing at 12.30 p.m. for the purposes of considering and, if thought fit, passing the following resolutions as special resolutions:

#### Special Resolutions

1. THAT, in addition to any subsisting authorities, the Company be authorised to issue for cash up to 158,250,000 ordinary shares of no par value in the capital of the Company ("**Ordinary Shares**") (equivalent to 50 per cent. of the Company's issued share capital as at the date of the passing of this resolution), provided that:
  - (i) such disapplication shall expire (unless and to the extent previously revoked, varied or renewed by a special resolution passed at a general meeting of the Company) on 27 June 2016; and
  - (ii) this authority shall enable the Company to make offers or agreements before such expiry which would or might require Ordinary Shares to be issued after such expiry and the Company may issue Ordinary Shares in pursuance of any such offer or agreement as if such expiry had not occurred.
2. THAT the name of the Company be changed to "CQS New City High Yield Fund Limited".

By order of the Board  
R&H Fund Services (Jersey) Limited  
Company Secretary

5 March 2015

*Registered Office*  
Ordnance House  
31 Pier Road  
St. Helier  
Jersey JE4 8PW

#### Notes

##### 1. **Entitlement to Attend and Vote**

Pursuant to Article 40 of the Companies (Uncertificated Securities) (Jersey) Order 1999, the Company has specified that only Shareholders registered on the Company's register of members at 6.00 p.m. on Saturday, 28 March 2015 (or, if the EGM is adjourned, 48 hours prior to the adjourned meeting) shall be entitled to attend and vote at the EGM in respect of the number of Ordinary Shares registered in their name at that time. Changes to entries on the register of members after 6.00 p.m. on Saturday, 28 March 2015 (or, if the EGM is adjourned, 48 hours prior to the adjourned meeting) shall be disregarded in determining the rights of any person to attend, speak and vote at the EGM.

##### 2. **Appointment of Proxies**

- 2.1 A member of the Company at the time set out in note 1 above is entitled to appoint a proxy to exercise all or any of their rights to attend, speak and vote at the EGM. A proxy does not need to be a member of the Company but must attend the EGM to represent the member. A proxy may only be appointed using the procedures set out in these notes and the notes on the Form of Proxy.
- 2.2 Appointment of a proxy will not preclude a member from attending the EGM and voting in person.

##### 3. **Appointment of Proxy Using Hard-copy Form of Proxy**

The notes on the Form of Proxy explain how to direct a proxy how to vote, or abstain from voting, on the Resolution. To appoint a proxy using the Form of Proxy, the Form of Proxy must be completed, signed and sent or delivered to the Company's registrar, Proxy Unit, Computershare Investor Services (Jersey), The Pavilions, Bridgwater Road, Bristol, BS99 6ZY, so as to be received no later than 12.30 p.m. on

Saturday, 28 March 2015. Any power of attorney or other authority under which the Form of Proxy is signed (or a duly certified copy of such power or authority) must be included with the Form of Proxy.

**4. Appointment of Proxies through CREST**

- 4.1 CREST members who wish to appoint a proxy or proxies for the EGM by utilising the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual, which can be reviewed at [www.euroclear.com/CREST](http://www.euroclear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- 4.2 In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with the specifications of Euroclear UK & Ireland Limited ("**EUI**") and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must be transmitted so as to be received by Computershare Investor Services (Jersey) Limited (3RA50) by 12.30 p.m. on Saturday, 28 March 2015. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.
- 4.3 CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that their CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
- 4.4 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Article 34 of the Companies (Uncertificated Securities) (Jersey) Order 1999.]

**5. Appointment of Proxy by Joint Members**

In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

**6. Issued Ordinary Shares and Total Voting Rights**

As at the date of this document, the Company's issued share capital comprised 244,239,339 Ordinary Shares, none of which were held in treasury. Each Ordinary Share carries the right to one vote at a general meeting of the Company and, accordingly, the total number of voting rights in the Company at the date of this document was 316,549,173.