To: RNS
Date: 19 May 2011
From: New City High Yield Fund Limited

Interim Management Statement

For the Three Month Period from 1 January 2011 to 31 March 2011

Investment Objective

The investment objective of the Company is to provide investors with a high dividend yield and the potential for capital growth by investing mainly in high yielding fixed interest securities.

Performance Summary

Total Return	For the three month period ended 31 March 2011
Net asset value per share	+4.8%
Ordinary share price	+8.7%

Capital Values	As at 31 March 2011	As at 31 December 2010	% Change
Net assets	£119.9 million	£116.2 million	
Net asset value per share	58.92p	57.10p	+3.2%
Share price	62.63p	58.50p	+7.1%
Premium	6.3%	2.5%	
Gearing (100 = nil geared position) *	106	101	

* Gearing = Total assets ÷ Equity Shareholders' Funds

Review for the Period:

Quarterly Report - March 2011

Short of a visit from the "Four horsemen of the Apocalypse", the last quarter has seen probably the most natural disasters in living memory over such a short period. Major floods in Queensland and Victoria in Australia, the Christchurch earthquake in New Zealand and the earthquake and tsunami off of the Japanese coast at Honshu; the world is indeed fortunate that the death toll in these major disasters was not far higher, although at the time of writing the problems with the nuclear power plants at Fukushima are not wholly resolved.

Nor have man made disasters been in short supply. We still have the ongoing sovereign debt crisis in Europe, where the optimism at the start of the quarter that the various ideas and support features might have a positive effect on the peripheral debt problems has faded. One of the major stumbling blocks has been the lack of acceptance of the populace to the level of the cuts required, witness the ongoing protests in Athens, the fall of the Irish Government at the end of January and the fall of the Portuguese Government towards the end of March. One thing is for certain; to dig themselves out of this massive hole, there will have to be some very large cuts indeed. While the recent Irish budget looked very tough, with public sector pay and pension cuts, welfare cuts, new housing taxes and water metering, there persists a suspicion that these cuts and a recovery in the growth of the economy may not be substantial enough to stem the need for borrowing above and beyond the already huge €85bn, with some economists predicting a rise to near €125bn. No doubt post the elections in Portugal any government is going to face exactly the same challenges. Default is in the air, and the merry-go-round of cuts and civil protests goes on, as evidenced by the recent protests in London post the budget of the 23rd March, although the cuts here are by no means as drastic as elsewhere in Europe.

Then we have the Geo-political crisis in the Middle East and North Africa (MENA); it all started with the Jasmin revolution in Tunisia back in January, which inspired oppressed majorities in other MENA states to follow suit, leading to the removal of Egypt's long serving President Mubarak. Other protests have taken place in Syria, Algeria, Yemen, Jordan, Bahrain, Iraq and Mauritania with reactions of incumbent leaders varying in levels of response. The full scale revolution in Libya has been particularly complicated. During the early days it looked as if the speed of events was too fast for even Colonel Gaddafi to deal with; it was not long, however, before he unleashed the full force of his armed forces upon the people. This persuaded the UN Security Council, albeit after much deliberation , to impose a "no fly zone" with an associated "protect the people" clause. This was quickly enforced by a coalition of European, American and Arab League air forces targeting Libyan Army and Air Force hardware. Military advisers have now been sent in and the mission creeps forward to an uncertain resolution.

One of the most major effects of all of these events has been the strength of the oil price – up from $94.3/bbl (Brent crude) at the end of December to a high in excess of $120/bbl from which it has barely rereated. This both adds to inflation and slows growth in Western economies.

Inflation is the bête noir of Anglo Saxon economies, with the Bank of England caught between the proverbial rock and a hard place, with inflation at worryingly high levels. RPI was at 5.3% in March, with growth forecasts at only 1.7% for 2011 and 2.5% for 2012 (figures given by the Chancellor in the Budget speech). We believe that the net result of these two opposing sets of figures will be that interest rates in the UK will remain at this level for some time to come, which seems to be supported by the current weakness in sterling against all currencies.

Despite the backdrop, the Company has had a good quarter, with the Company's net asset value closing the quarter at 58.92 pence, within one hundredth of a penny of its then all time high of 58.93p achieved just two days earlier. It has further increased to 59.14 pence at the time of writing.

As regards transactions for the portfolio it was a case of "steady as she goes". We continue to sell bonds which have performed well and no longer provide the running yield to justify being held, such as Great Panther convertible, which was approaching its redemption date, and with the recent spike in the underlying equity price way above our C$2.25 convert price, we took the opportunity to convert and sell the resultant equity shares. We also had two bonds called in the period; Cirsa $7^7/_8$ and Sevan Driller FRN 2012 and a partial call in the Glencore 8%, all of which provide profits which enhance the capital element of the portfolio.

We have been able to redeploy the proceeds in existing holdings and, given the inflationary environment, we have opened new holdings in London Mining 8% convertible Dannemora 11¾ Bond 2016 and two floating rate notes; Detnor FRN 2016 and Morpol FRN 2016. London Mining and Dannemora are both in the iron ore space, while Detnor is a Norwegian focused oil E&P company and Morpol one of the world's leading Salmon processors.

We continue to look for opportunities to enhance both capital and income for the company.

Dividend:
A second interim dividend for the year to 30 June 2011 of 0.85p per share was paid on 25 February 2011 to shareholders on the register on 28 January 2011.

Top Ten Holdings as at 31 March 2011

Company	Sector	Percentage of total assets
Balfour Beatty 10.75% Cum Pref	Construction	3.9
AMI 31/10/13 10% Cv	Oil & Gas	3.8
REA Finance 9.5% 31/12/17	Food products	3.4
Santos Finance 8.25% 22/09/70	Oil and Gas	2.4
Skipton 10% 12/12/8	Financial	2.3
Cable & Wireless 8.625% 25/03/19	Telecommunications	2.3
Brit Insurance 6.625% 09/12/30	Insurance	2.2
Santander 11.3% 27/07/14	Banks	2.1
Tullett Prebon 7.04% 06/07/16	Financial	2.1
Scottish Mutual 7.25% 25/03/21	Insurance	2.0
Total		26.5

Analysis of Investments by Currency as at 31 March 2011

	Percentage of total investments
Sterling	56
Australian Dollar	12
Euro	11
US Dollar	11
Norwegian Krone	7
Canadian Dollar	3
Total	100

Analysis of Investments by Asset Class as at 31 March 2011

	Percentage of total investments
Bonds	69
Convertibles	18
Preference shares	10
Equities	3
Total	100

Analysis of Investments by Quotation as at 31 March 2011

	Percentage of total investments
Listed/Quoted on a recognised investment exchange	96
Unquoted (convertible into a security quoted on a recognised exchange)	3
Unquoted	1
Total	100

Significant Events or Transactions since 31 March 2011

A third interim dividend for the year to 30 June 2011 of 0.85p per share was declared on 19 April 2011. This dividend is payable to shareholders on the register on 3 May 2011 and will be paid on 27 May 2011.

The Company announced on 26 April 2011 its intention to seek a secondary listing of the ordinary shares of the Company on the Channel Islands Stock Exchange.

The shares were admitted to the Official List of the Channel Islands Stock Exchange on 3 May 2011.

The Board is not aware of any other significant events or transactions which have occurred since 31 March 2011 and the date of publication of this statement which would have a material impact on the financial position of the Company.

Daily and Key Information

Further information regarding the Company including the share price and the recent monthly fact sheet, can be found at the Investment Manager's website www.ncim.co.uk

Disclaimer

This interim management statement has been prepared solely to provide information to meet the requirements of the UK Listing Authority's Disclosure and Transparency Rules.

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