

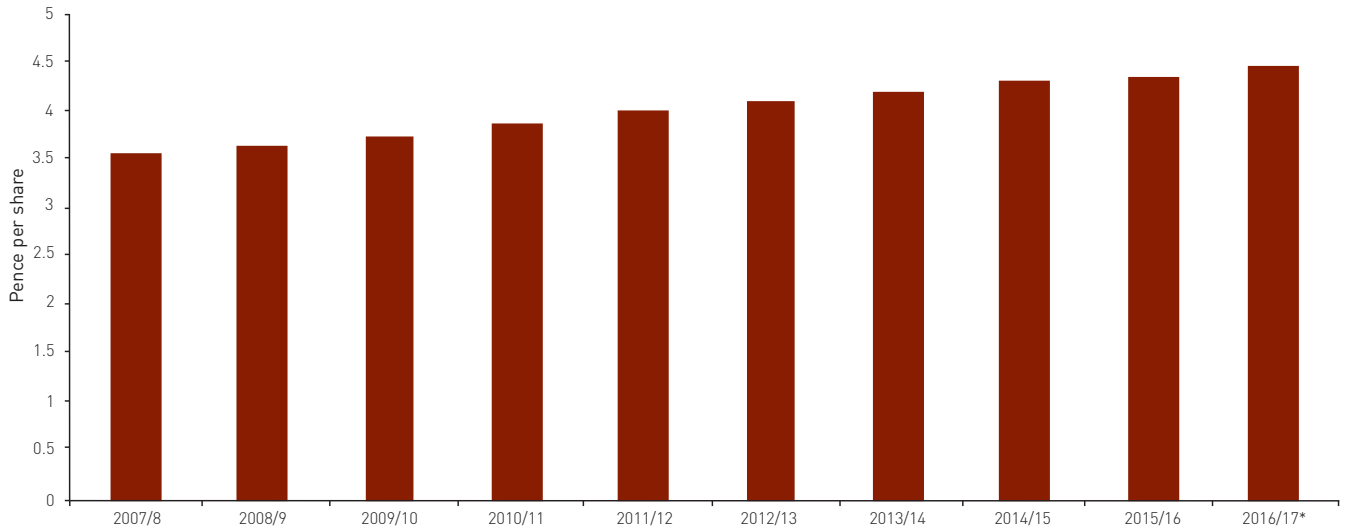
---

CQS NEW CITY  
HIGH YIELD FUND  
LIMITED

---

INTERIM REPORT  
31 DECEMBER 2016

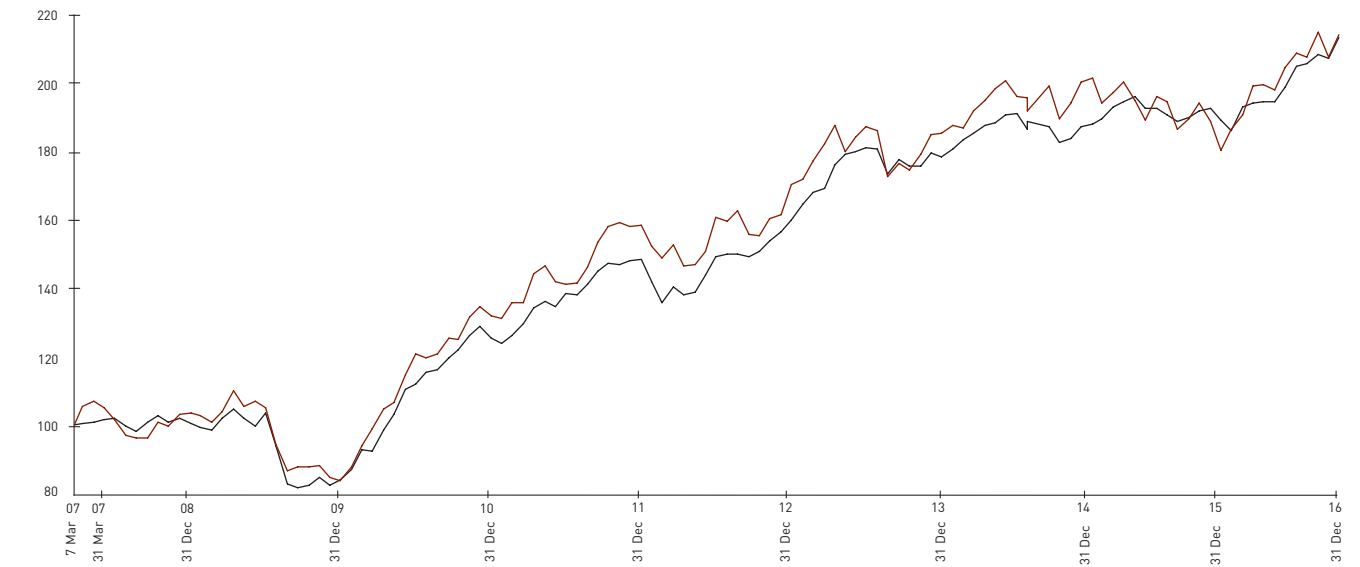
### Dividends Declared in Respect of Each Financial Year



\*2016/17 assumes that the third interim dividend in respect of the financial year ended 30 June 2017 remains in line with the second interim dividend paid for that year at 0.98 pence per share and that the fourth interim dividend is in line with the fourth interim dividend paid in respect of the financial year ended 30 June 2016 of 1.45 pence per share.

Source: R&H Fund Services Limited

### 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 7 March 2007)

Source: R&H Fund Services Limited

## Our Objective

To provide investors with a high dividend yield and the potential for capital growth by investing mainly in high yielding fixed interest securities.

## Contents

<b>2</b>	<b>Financial Highlights</b>
<b>3</b>	<b>Chairman's Statement</b>
<b>4</b>	<b>Investment Manager's Review</b>
<b>5</b>	<b>Classification of Investment Portfolio and Classification of Investment Portfolio by Sector</b>
<b>6</b>	<b>Investment Portfolio</b>
<b>8</b>	<b>Top Ten Largest Holdings</b>
<b>9</b>	<b>Condensed Income Statement</b>
<b>10</b>	<b>Condensed Balance Sheet</b>
<b>11</b>	<b>Condensed Statement of Changes in Equity</b>
<b>12</b>	<b>Condensed Cash Flow Statement</b>
<b>13</b>	<b>Notes to the Accounts</b>
<b>15</b>	<b>Directors' Statements</b>
<b>16</b>	<b>Glossary of Terms and Definitions</b>
	<b>Corporate Information</b>

## Financial Highlights

Total Return*	Six months to 31 December 2016	Six months to 31 December 2015
Net asset value	9.8%	-0.1%
Ordinary share price	8.1%	-0.3%

Capital Values	31 December 2016	30 June 2016	% change
Total assets less current liabilities (with the exception of the bank loan facility)	£233.7m	£222.8m	4.89%
Net asset value per ordinary share	57.47p	54.68p	5.10%
Share price (mid market)	59.13p	57.00p	3.74%

Revenue and Dividends	Six months to 31 December 2016	Six months to 31 December 2015	% change
Revenue earnings per ordinary share	2.42p	2.38p	1.68%
Dividends per ordinary share	1.96p	1.94p	1.03%

Other Highlights	31 December 2016	30 June 2016
Premium*	2.89%	4.24%
Gearing*	111	109

Dividend History	Rate	xd date	Record date	Payment date
First interim 2017	0.98p	27 October 2016	28 October 2016	30 November 2016
Second interim 2017	0.98p	26 January 2017	27 January 2017	28 February 2017
<b>Total</b>	<b>1.96p</b>			
First interim 2016	0.97p	29 October 2015	30 October 2015	27 November 2015
Second interim 2016	0.97p	28 January 2016	29 January 2016	29 February 2016
Third interim 2016	0.97p	28 April 2016	29 April 2016	27 May 2016
Fourth interim 2016	1.45p	28 July 2016	29 July 2016	31 August 2016
<b>Total</b>	<b>4.36p</b>			

\* A glossary of the terms used can be found on page 16.

# Chairman's Statement

## Highlights for the six month period

- Net asset value total return of 9.8%.
- Ordinary share price total return of 8.1%.
- Dividend yield of 7.4%, based on dividends at an annualised rate of 4.39 pence and a share price of 59.13 pence at 31 December 2016.
- Ordinary share price at a premium of 2.9% to net asset value at 31 December 2016.
- £1.0m of equity raised during the period.

## Investment and Share Price Performance

Your Company's net asset value increased by 5.1% to 57.5 pence per share during the six months ended 31 December 2016. When this capital measure is adjusted for the payment of dividends totalling 1.96 pence per share in respect of the period, the net asset value total return was a strong 9.7%. The share price total return for the same period was similarly strong at 8.1%.

## Earnings and Dividends

The Company declared two dividends of 0.98 pence in respect of the period, an increase of 0.1% on those declared in respect of the same period last year. Based on an annualised rate of 4.39 pence and a share price of 61.25 pence at the time of writing, this represents a yield of 7.2%.

## Gearing

The Company renewed its existing £30m loan facility with Scotiabank in December 2016 at a current all-in rate of 1.27%. The new facility is on comparable terms with the one that it replaced. £25m was drawn down at 31 December 2016 and the Company had an effective gearing rate of 11%.

## Rating and Fund Raising

The market continued to attach a premium rating to the shares of your Company throughout the period under review. £1.0m of new equity was issued during the period as part of the process of managing the premium to net asset value at which your Company's shares trade, something that the Board will continue to keep under close review.

## Board

I am delighted to welcome Ian Cadby, who joined us on 18 January 2017, to the Board. Ian, a Jersey resident, has over 27 years' experience within the financial services industry in London, New York and Jersey with a strong emphasis on risk management, corporate governance and board strategy. These are skills that further strengthen the Board's ability to steer your Company through the ever changing financial environment.

After a process of active refreshment, the Board is now at full strength with five Directors in total; three residing in Jersey and two in the UK.

## Outlook

We began the six months under review digesting the outcome of the Brexit vote, and we close it contemplating the early stages of the Trump Presidency. The first resulted in dramatic sterling weakness, a cut in UK interest rates and more quantitative easing. Equity markets were unexpectedly firm, and were buoyed further by the early news from the United States. Our portfolio manager, Ian Francis, considers these matters at greater length in his Investment Manager's Review.

High yield markets reacted well to the turbulence of the period under review, and the Manager continues to find value in the bond markets. The strength of the US economy and the long awaited first increase in interest rates by the Federal Reserve point the way forward, and your Company remains well positioned to benefit from the prevailing market trends.

**James G West**  
Chairman

3 March 2017

## 4 Investment Manager's Review

The second half of calendar year 2016, had all the potential for highly volatile markets and further political uncertainty. We started from a point just after the Brexit vote and the immediate devaluation of sterling and this would set the scene for the UK for the period.

In the UK, after a very surprising Conservative party leadership contest, the party rapidly chose Theresa May thus removing the opportunity for a summer of over hyped media coverage and political mudslinging. This removed a lot of uncertainty in UK equity and bond markets, but had, unsurprisingly no effect on sterling. The weakness of the currency would be a positive factor for the UK economy throughout the period. August saw the Bank of England step in with a 25 basis point cut in rates, a further £60bn of quantitative easing, £10bn of corporate bond purchases and £100m of funding for lending, all of which had the desired positive effect on markets with the high yield market reacting particularly well.

The United States economy showed continued strength of recovery which was evidenced by new home sales being up 12.4% (the most rapid rise since October 2007), and strong employment data, adding 151,000 jobs in August. This was all positive news and put pressure on the Federal Reserve Bank to raise rates.

Europe had some negative news in September, with the publishing of second quarter GDP data, which for France and Italy showed their economies stalling, with growth at a mediocre 0.3%. Not that Germany provided much solace with a flat GDP figure of 0.3% which as Europe's largest economy was a worrying event. We are still a long way from sustained recovery in Europe.

The United States economy continued to strengthen in front of the election evidenced by the median weekly earnings being up 3% year on year, when added to all of the positive figures elsewhere in the economy this would have normally triggered a rate rise, but in this case just ahead of a very acrimonious election which was way too close to call at that point.

Well it happened. Donald Trump was elected by the US populous getting the majority in the electoral college, despite getting 3 million less votes than Hillary Clinton! This was a continuation of the western world's rebellion against the political establishment. The first impressions of a Trump presidency were an education, with various dictates from his Twitter account, including a couple which "encouraged" major auto manufacturers to cancel plans for expansion in Mexico and relocate the new plants into the United States.

Away from the politics a fully-fledged US economic recovery was confirmed when the Federal Reserve Bank finally raised rates by 25bp in early December followed by non-farm payroll productivity up 3.1% in the third quarter and unemployment down to 4.6% with 178,000 jobs created in November alone. The US equity markets took these along with a Trump presidency as very bullish for the US going forward and raced to a new all-time high of 19,983.26 on the 20th December.

In the UK, the Autumn statement from the Chancellor Phillip Hammond was an exercise in positioning of a government with an uncomfortably small majority. The Treasury was positioned as central to Brexit and he clipped the wings of 'Hard Brexiteers' by taking a trick from private sector CFO's and kitchen sinking the figures placing the Government's economic and political options right in the middle of the worst case scenario zone. With the usual benefit that he will be able to take all the kudos that better performance brings. The FTSE100 was still focussed on exporters and the strength of equities in the United States and had a positive move into the end of December, whilst in fixed income markets all was much quieter with low volumes and not much volatility.

For the Company's portfolio the major transactions were switching out of Enterprise Inns 6.875% 2025 into Unique Pubs 7.385% 2024 to pick up yield and shorten duration. Taking profits in Old Mutual 8.875% 2025 and redeploying the proceeds into Partnership 9.5% 2025 and Permanent TSB 8.625% perpetual, we opened a holding in 1st Credit 11% 2020 below par. This company has subsequently been bid for by Justicia Group and we would expect these bonds to be called once the deal goes through towards the end of the first quarter. We also increased our US\$ exposure in the guise of Louis Dreyfus 8.25% perpetual and Trafigura 7.625% perpetual.

The equity element of the portfolio saw sales for Greencoat UK Wind, SQN Asset Finance and NextEnergy Solar Fund as medium term investment targets were met. We also partially sold New River Retail downsizing the holding on a premium to NAV of 17% and a forecast yield of 5.9%.

We continue to look for opportunities in both bond and equity markets which meet the Company's requirements. We believe that the new issue market may offer some of these in both areas, and market volatility will continue to give a second chance to invest in some of the existing holdings which are currently too high to add to, or throw up new ones which we do not own.

The calendar year of 2017 has many political events ahead to provide such volatility. The continuing governing by Twitter by President Trump, the French presidential elections, German general elections, and of course Brexit negotiations, will be giving plenty of headlines for the next two years.

**Ian Francis**  
New City Investment Managers  
3 March 2017

## Classification of Investment Portfolio

By Currency	As at	As at	As at
	31 December 2016	31 December 2015	30 June 2016
	Total investments	Total investments	Total investments
	%	%	%
Sterling	75	75	73
US Dollar	16	13	15
Euro	6	6	6
Australian Dollar	1	3	3
Swedish Krona	2	2	2
Norwegian Krone	–	1	1
<b>Total investments</b>	<b>100</b>	<b>100</b>	<b>100</b>

By Asset Class	As at	As at	As at
	31 December 2016	31 December 2015	30 June 2016
	Total investments	Total investments	Total investments
	%	%	%
Bonds	82	79	83
Preference shares	6	9	5
Equity shares	12	12	12
<b>Total investments</b>	<b>100</b>	<b>100</b>	<b>100</b>

By Quotation	As at	As at	As at
	31 December 2016	31 December 2015	30 June 2016
	Total investments	Total investments	Total investments
	%	%	%
Listed/Quoted on a recognised investment exchange	99.9	99.9	98.3
Unquoted	0.1	0.1	1.7
<b>Total investments</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## Classification of Investment Portfolio by Sector

	Dec 2016	Dec 2015	Jun 2016
	% of total	% of total	% of total
	investments	investments	investments
Oil & Gas	3.3	7.0	5.1
Basic Materials	2.1	1.9	1.9
Industrials	5.1	6.4	4.4
Consumer Goods	11.5	10.9	11.2
Consumer Services	10.5	11.7	11.7
Healthcare	0.8	0.9	1.2
Telecommunications	4.6	4.0	4.6
Utilities	2.7	3.6	4.1
Financials	58.9	53.6	55.8
Technology	0.5	–	–
<b>Total Investments</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

# Investment Portfolio

as at 31 December 2016

Company	Sector	Valuation £'000	Total Investments %
Unique Pub Finance 7.395% 28/03/2024	Restaurants & Bars	7,055	3.1
Galaxy Finco 7.875% 15/11/2021	Insurance	6,685	2.9
PizzaExpress Financing 8.625% 01/08/2022	Restaurants & Bars	6,338	2.8
Rea Finance 8.75% 31/08/2020	Food Products	5,848	2.6
Trafigura Beheer 7.625% 29/10/2049 VAR PERP	Financial	5,701	2.5
Barclays Bank 7% 15/09/2019	Banks	5,575	2.4
Partnership Assurance 9.5% 24/03/2025	Insurance	5,299	2.3
Balfour Beatty 10.75% Pref Shares	Construction	5,178	2.3
Matalan Finance 8.875% 01/06/2020	Retail	4,916	2.2
Iceland Bondco 6.75% 15/07/2024	Supermarkets & Pharmacies	4,772	2.1
<b>Top ten investments</b>		<b>57,367</b>	<b>25.2</b>
1st Credit Holdings 11% 06/10/2020	Financial	4,623	2.0
Altice 7.75% 15/05/2022	Telecommunications	4,316	1.9
Garfunkelux Holdco 11% 01/11/2023	Insurance	4,253	1.9
Aldermore Group 11.875% 30/04/2020	Banks	4,210	1.9
Lloyds Banking Group 7.625% 27/06/2023	Banks	4,125	1.8
Old Mutual 7.875% 03/11/2025	Insurance	4,052	1.8
Banco Popular Espanol 8.25% 10/04/2049 VAR PERP	Banks	4,040	1.8
Newriver Retail	Real Estate	3,757	1.7
CYBG 8% 29/12/2049 VAR PERP	Banks	3,656	1.6
SAS AB PRF	Transport	3,649	1.6
<b>Top twenty investments</b>		<b>98,048</b>	<b>43.2</b>
Co-operative Bank 8.5% 01/07/2025	Banks	3,640	1.6
Perform Group Finance 8.5% 15/11/2020	Financial	3,604	1.6
Falcon Germany 9% 15/07/2020	Industrial	3,586	1.6
Johnston Press 8.625% 01/06/2019	Media	3,534	1.6
Aker BP 10.25% 27/05/2022	Oil & Gas	3,410	1.5
Tizir 9% 28/09/2017	Mining	3,355	1.5
REA Holding 9% Cum Pref Shares	Food Products	3,355	1.5
Louis Dreyfus 8.25% 29/12/2049 VAR PERP	Agriculture	3,260	1.4
Phoenix Life 7.25% 25/03/2049 VAR PERP	Insurance	3,113	1.4
JRP Group 9% 26/10/2026	Financial	3,023	1.3
<b>Top thirty investments</b>		<b>131,928</b>	<b>58.2</b>
Paragon Group Companies 7.25% 09/09/2026	Financial	3,014	1.3
Cable & Wireless 8.625% 25/03/2019	Telecommunications	2,956	1.3
Virgin Money 7.875% 31/07/2019	Banks	2,950	1.3
Lloyds Banking Group 7.875% 27/06/2029	Banks	2,926	1.3
Brit Insurance 6.625% 09/12/2030	Insurance	2,839	1.2
Nextenergy Solar	Clean Energy	2,795	1.2
Bibby 7.5% 15/06/2021	Oil & Gas	2,742	1.2
National Westminster 11.5% 17/12/49 PERP (bearer)	Banks	2,640	1.2
Greencoat UK Wind	Clean Energy	2,595	1.1
Deutsche Bank 7.125% 30/04/2026	Banks	2,583	1.1
<b>Top forty investments</b>		<b>159,968</b>	<b>70.4</b>



Company	Sector	Valuation £'000	Total Investments %
UBS Group 7% 19/02/2049 VAR PERP	Financial	2,550	1.1
Channel Island Property REIT	Real Estate	2,475	1.1
Investec Bank 9.625% 17/02/2022	Banks	2,412	1.1
Arqiva Broadcast Finance 9.5% 31/03/2020	Telecommunications	2,388	1.1
Tesco Property 7.6227% 13/07/2039	Real Estate	2,385	1.0
Nationwide CCDS 10.25%	Financial	2,315	1.0
HDL Debenture 10.375% 31/07/2023	Real Estate	2,239	1.0
Garfunkelux Holdco 3 SA 8.5% 01/11/2022	Financial	2,184	1.0
Oro Negro Drilling 7.5% 24/01/2019	Oil & Gas	2,159	0.9
Permanent TSB 8.625% 04/01/2021	Banks	2,004	0.9
<b>Top fifty investments</b>		<b>183,079</b>	<b>80.6</b>
Raven Russia 12% Pref Shares	Real Estate	1,902	0.8
HBOS Capital 6.85% 23/03/2049 PERP	Banks	1,798	0.8
Rothschild Cont Fin 9% 15/02/2049 PERP	Financial	1,759	0.8
Standard Life Investment Property Income Trust	Real Estate	1,720	0.8
Bristol & West 8.125% Pref	Financial	1,644	0.7
Personalhuset FRN 11/09/2019	Support Services	1,614	0.7
RM Secured Direct Lending	Financial	1,515	0.7
Barclays 7.875% 15/09/2022	Banks	1,494	0.7
Drill Rigs 6.5% 01/10/2017	Oil & Gas	1,467	0.6
Scottish Widows 7% 16/06/2043	Financial	1,453	0.6
<b>Top sixty investments</b>		<b>199,445</b>	<b>87.8</b>
Aggre Micro 8% 17/10/2036	Industrials	1,274	0.6
Altice Financing 7.5% 15/05/2026	Telecommunications	1,249	0.5
Veritas US 7.5% 01/02/2023	Information Technology	1,184	0.5
Crown Resorts FRN 14/09/2072	Entertainment	1,177	0.5
Principality Building 7% 01/06/2020	Financial	1,175	0.5
VPC Specialty Lending Investments	Financial	1,159	0.5
Clerical Medical Fin 7.375% 05/11/2049 VAR PERP	Insurance	1,123	0.5
Bighthouse Group 7.875% 15/05/2018	Retail	1,096	0.5
NIB Capital Bank 7.625% 29/10/2049 PERP	Banks	1,057	0.5
Foresight Solar	Financial	1,037	0.4
<b>Top seventy investments</b>		<b>210,976</b>	<b>92.8</b>
Other investments (57)		16,413	7.2
<b>Total investments</b>		<b>227,389</b>	<b>100.0</b>
Notes:			
CCDS – Core Capital Deferred Share	VAR – Variable		
FRN – Floating Rate Note	Pref – Preference Shares		
PERP – Perpetual	Cum Pref – Cumulative Preference Shares		

## Top Ten Largest Holdings

as at 31 December 2016

	Valuation 30 June 2016 £'000	Purchases £'000	Sales £'000	Appreciation £'000	Valuation 31 December 2016 £'000
<b>Unique Pub Finance 7.395% 28/03/2024</b> The Unique Pub Company owns a portfolio of tenanted United Kingdom public houses	5,421	1,361	(260)	533	7,055
<b>Galaxy Finco 7.875% 15/11/2021*</b> A specialist provider of warranties for consumer electric products.	6,481	–	–	204	6,685
<b>PizzaExpress Financing 8.625% 01/08/2022</b> A restaurant group with over 400 restaurants across the United Kingdom and Europe, Hong Kong, India and the Middle East.	5,005	936	–	397	6,338
<b>REA Finance 8.75% 31/08/2020</b> Cultivator of oil palms and production of crude palm oil and palm products.	5,370	–	–	478	5,848
<b>Trafigura Beheer 7.625% 29/10/2049 VAR PERP</b> A multinational commodity trading company that trades in base metals and oil.	4,443	572	–	686	5,701
<b>Barclays Bank 7% 15/09/2019</b> A British multinational banking and financial services company.	5,180	–	–	395	5,575
<b>Partnership Assurance 9.5% 24/03/2025</b> An insurance company which offers specialist products for people with health conditions.	–	5,050	–	249	5,299
<b>Balfour Beatty 10.75% Pref Shares</b> Multinational infrastructure group specialising in construction and support services.	4,807	–	–	371	5,178
<b>Matalan Finance 8.875% 01/06/2020</b> Owner and operator of Matalan stores.	4,773	–	–	143	4,916
<b>Iceland Bondco 6.75% 15/07/2024</b> Retail grocer specialising in frozen and chilled foods.	4,165	–	–	607	4,772
	<b>45,645</b>	<b>7,919</b>	<b>(260)</b>	<b>4,063</b>	<b>57,367</b>

\* Galaxy Finco is the holding company for Domestic and General Insurance.

At 31 December 2016 these investments totalled £57,367,000 or 25.2% of the portfolio.

# Condensed Income Statement

For the six months ended 31 December 2016

9

	Notes	Six months ended 31 December 2016 (unaudited)			Six months ended 31 December 2015 (unaudited)			Year ended 30 June 2016 (audited)		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Capital gains/(losses) on investments</b>										
Gains/(losses) on investments	3	-	10,022	10,022	-	(8,711)	(8,711)	-	(14,281)	(14,281)
Exchange gains/(losses)		-	143	143	-	(6)	(6)	-	75	75
<b>Revenue</b>										
Income	4	10,077	-	10,077	9,864	-	9,864	18,692	-	18,692
<b>Total income</b>		<b>10,077</b>	<b>10,165</b>	<b>20,242</b>	<b>9,864</b>	<b>(8,717)</b>	<b>1,147</b>	<b>18,692</b>	<b>(14,206)</b>	<b>4,486</b>
<b>Expenses</b>										
Investment management fee	5	(679)	(226)	(905)	(665)	(222)	(887)	(1,328)	(443)	(1,771)
Other expenses		(338)	(10)	(348)	(358)	(34)	(392)	(653)	(61)	(714)
<b>Total expenses</b>		<b>(1,017)</b>	<b>(236)</b>	<b>(1,253)</b>	<b>(1,023)</b>	<b>(256)</b>	<b>(1,279)</b>	<b>(1,981)</b>	<b>(504)</b>	<b>(2,485)</b>
<b>Profit/(loss) before finance costs and taxation</b>		<b>9,060</b>	<b>9,929</b>	<b>18,989</b>	<b>8,841</b>	<b>(8,973)</b>	<b>(132)</b>	<b>16,711</b>	<b>(14,710)</b>	<b>2,001</b>
<b>Finance costs</b>										
Interest receivable		-	-	-	-	-	-	1	-	1
Interest payable and similar charges		(125)	(42)	(167)	(157)	(52)	(209)	(295)	(98)	(343)
<b>Profit/(loss) before taxation</b>		<b>8,935</b>	<b>9,887</b>	<b>18,822</b>	<b>8,684</b>	<b>(9,025)</b>	<b>(341)</b>	<b>16,417</b>	<b>(14,808)</b>	<b>1,609</b>
Irrecoverable withholding tax		(132)	-	(132)	(185)	-	(185)	(261)	-	(261)
<b>Profit/(loss) after taxation</b>		<b>8,803</b>	<b>9,887</b>	<b>18,690</b>	<b>8,499</b>	<b>(9,025)</b>	<b>(526)</b>	<b>16,156</b>	<b>(14,808)</b>	<b>1,348</b>
<b>Earnings per ordinary share (pence)</b>	6	<b>2.42</b>	<b>2.72</b>	<b>5.14</b>	<b>2.38</b>	<b>(2.53)</b>	<b>(0.15)</b>	<b>4.50</b>	<b>(4.12)</b>	<b>0.38</b>

The total column of this statement represents the Company's Income Statement, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies.

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

No operations were acquired or discontinued during the period.

# Condensed Balance Sheet

As at 31 December 2016

	Notes	As at 31 December 2016 (unaudited) £'000	As at 31 December 2015 (unaudited) £'000	As at 30 June 2016 (audited) £'000
<b>Non-current assets</b>				
Investments held at fair value		227,389	218,896	211,882
<b>Current assets</b>				
Other receivables		4,953	4,412	3,952
Cash and cash equivalents		1,626	4,878	8,201
		6,579	9,290	12,153
<b>Total assets</b>		<b>233,968</b>	<b>228,186</b>	<b>224,035</b>
<b>Current liabilities</b>				
Bank loan facility	7	(25,000)	(25,000)	(25,000)
Other payables		(246)	(214)	(1,208)
<b>Total liabilities</b>		<b>(25,246)</b>	<b>(25,214)</b>	<b>(26,208)</b>
<b>Net assets</b>		<b>208,722</b>	<b>202,972</b>	<b>197,827</b>
<b>Stated capital and reserves</b>				
Stated capital account	8	155,410	154,398	154,397
Special distributable reserve		50,385	50,385	50,385
Capital reserve		(12,438)	(16,800)	(22,325)
Revenue reserve		15,365	14,989	15,370
<b>Equity shareholders' funds</b>		<b>208,722</b>	<b>202,972</b>	<b>197,827</b>
<b>Net asset value per ordinary share (pence)</b>	9	<b>57.47</b>	56.86	54.68

Approved by the Board of Directors on 3 March 2017 and signed on its behalf by:

J G West  
Director

# Condensed Statement of Changes in Equity

For the six months ended 31 December 2016 (unaudited)

11

	Notes	Stated capital account £'000	Special distributable reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 1 July 2016		154,397	50,385	(22,325)	15,370	197,827
<b>Total comprehensive income for the period:</b>						
Profit for the period		-	-	9,887	8,803	18,690
<b>Transactions with shareholders recognised directly in equity:</b>						
Dividends paid	2	-	-	-	(8,808)	(8,808)
Issue of shares		1,013	-	-	-	1,013
At 31 December 2016		155,410	50,385	(12,438)	15,365	208,722

## For the six months ended 31 December 2015 (unaudited)

	Notes	Stated capital account £'000	Special distributable reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 1 July 2015		150,963	50,385	(7,775)	15,103	208,676
<b>Total comprehensive income for the period:</b>						
(Loss)/profit for the period		-	-	(9,025)	8,499	(526)
<b>Transactions with shareholders recognised directly in equity:</b>						
Dividends paid	2	-	-	-	(8,613)	(8,613)
Issue of shares		3,435	-	-	-	3,435
At 31 December 2015		154,398	50,385	(16,800)	14,989	202,972

## For the year ended 30 June 2016 (audited)

	Notes	Stated capital account £'000	Special distributable reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 1 July 2015		150,963	50,385	(7,775)	15,103	208,676
<b>Total comprehensive income for the year:</b>						
(Loss)/profit for the year		-	-	(14,808)	16,156	1,348
Reserve transfer		-	-	258	(258)	-
<b>Transactions with owners recognised directly in equity:</b>						
Dividends paid	2	-	-	-	(15,631)	(15,631)
Issue of shares		22,825	-	-	-	22,825
Buyback of ordinary shares for Treasury		(19,391)	-	-	-	(19,391)
At 30 June 2016		154,397	50,385	(22,325)	15,370	197,827

# Condensed Cash Flow Statement

For the six months ended 31 December 2016

	Six months ended 31 December 2016 (unaudited) £'000	Six months ended 31 December 2015 (unaudited) £'000	Year ended 30 June 2016 (audited) £'000
<b>Operating activities</b>			
Profit/(loss) before finance costs and taxation	18,989	(132)	2,001
(Gains)/losses on investments	(10,022)	8,711	14,281
Effective yield	(414)	(363)	(625)
Exchange (gains)/losses	(143)	6	(75)
Increase in other receivables	(1,001)	(869)	(409)
(Decrease)/increase in other payables	(10)	(4)	31
<b>Net cash inflow from operating activities before interest and taxation</b>	<b>7,399</b>	<b>7,349</b>	<b>15,204</b>
Interest received	-	-	1
Interest paid	(167)	(209)	(371)
Irrecoverable withholding tax paid	(132)	(185)	(261)
<b>Net cash inflow from operating activities</b>	<b>7,100</b>	<b>6,955</b>	<b>14,567</b>
<b>Investing activities</b>			
Purchases of investments	(35,807)	(35,373)	(65,791)
Sales of investments	30,735	30,294	62,410
<b>Net cash outflow from investing activities</b>	<b>(5,072)</b>	<b>(5,079)</b>	<b>[3,381]</b>
<b>Financing activities</b>			
Equity dividends paid	(8,808)	(8,613)	(15,631)
Drawdown of bank loan facility	-	2,000	2,000
Issue of ordinary shares	1,013	3,435	3,434
<b>Net cash outflow from financing activities</b>	<b>(7,795)</b>	<b>(3,178)</b>	<b>(10,197)</b>
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(5,767)</b>	<b>(1,302)</b>	<b>989</b>
Cash and cash equivalents at the start of the period	8,201	6,220	6,220
Movement on bank overdraft	(951)	(34)	951
Cashflow	(5,767)	(1,302)	989
Exchange gains/(losses)	143	(6)	75
<b>Cash and cash equivalents at the end of the period<sup>†</sup></b>	<b>1,626</b>	<b>4,878</b>	<b>8,201</b>

<sup>†</sup> Net debt includes cash held at bank and bank loan facility.

# Notes to the Accounts

## 1. Basis of Preparation

The unaudited interim results which cover the six month period to 31 December 2016 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting", and the accounting policies as set out in the statutory accounts of the Company for the year to 30 June 2016.

### Going concern

The condensed financial statements have been prepared on the going concern basis. In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council. After making enquiries, and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## 2. Dividends

Amounts recognised as distributions to equity holders in the period:

	Six months ended 31 December 2016		Six months ended 31 December 2015		Year ended 30 June 2016	
	£'000	Rate (pence)	£'000	Rate (pence)	£'000	Rate (pence)
<b>In respect of the previous period:</b>						
Fourth interim dividend	5,246	1.45	5,161	1.45	5,161	1.45
<b>In respect of the period under review:</b>						
First interim dividend	3,562	0.98	3,452	0.97	3,452	0.97
Second interim dividend	-	-	-	-	3,509	0.97
Third interim dividend	-	-	-	-	3,509	0.97
	<b>8,808</b>	<b>2.43</b>	<b>8,613</b>	<b>2.42</b>	<b>15,631</b>	<b>4.36</b>

A second interim dividend in respect of the year ending 30 June 2017 of 0.98p per ordinary share was paid on 28 February 2017 to shareholders on the register on 27 January 2017. In accordance with International Financial Reporting Standards ("IFRS") this dividend has not been included as a liability in these accounts.

## 3. Investment Gains

Included within gains on investments for the period ended 31 December 2016 are realised gains of £86,000 and unrealised gains of £9,936,000.

## 4. Income

The breakdown of income for the period was as follows:

	Six months ended 31 December 2016 £'000	Six months ended 31 December 2015 £'000	Year ended 30 June 2016 £'000
<b>Income from investments:</b>			
Dividend income	865	800	1,471
Preference share income	581	1,110	1,180
Interest on fixed interest securities	8,631	7,954	16,041
<b>Total income</b>	<b>10,077</b>	<b>9,864</b>	<b>18,692</b>

## 5. Investment Management Fee

The Company's investment manager is CQS which has delegated, this function to NCIM. The contract between the Company and CQS may be terminated by either party giving not less than 12 months notice of termination. CQS receive a basic monthly fee at the rate of 0.8 per cent per annum of the Company's total assets (less current liabilities other than bank borrowings), payable in arrears up to and including £200,000,000 and 0.7 per cent per annum above this. During the period investment management fees of £905,528 were incurred, of which £151,295 was payable at the period end.

## 6. Earnings per Ordinary share

The revenue earnings per ordinary share is based on the net profit after taxation of £8,803,000 (31 December 2015: £8,499,000 and 30 June 2016: £16,156,000) and on a weighted average of 363,161,029 (31 December 2015: 356,988,325 and 30 June 2016: 359,441,578) ordinary shares in issue throughout the period.

The capital return per ordinary share is based on a net capital gain of £9,887,000 (31 December 2015: a net capital loss of £9,025,000 and 30 June 2016: a net capital loss of £14,808,000) and on a weighted average of 363,161,029 (31 December 2015: 356,988,325 and 30 June 2016: 359,441,578) ordinary shares in issue throughout the period.

## Notes to the Accounts (continued)

### 7. Bank Loan Facility

	31 December 2016 £'000	31 December 2015 £'000	30 June 2016 £'000
Bank loan facility	25,000	25,000	25,000

The Company has a short term loan facility with Scotiabank.

As at the period end the unsecured loan facility had a limit of £30 million of which £25 million was drawn down as at 31 December 2016.

### 8. 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	2016 £'000
Total issued share capital at 1 July 2016	361,774,417	154,397
1,750,000 ordinary shares of no par value issued on 9 August 2016	1,750,000	1,013
Total issued share capital at 31 December 2016	363,524,417	155,410

On 9 August 2016 the Company allotted 1,750,000 ordinary shares of no par value, issued from Treasury, for cash at 57.87p per share.

The balance of shares left in Treasury as at 31 December 2016 was 34,427,441.

### 9. Net Asset Value per Ordinary share

The net asset value per ordinary share is based on net assets at the period end of £208,722,000 (31 December 2015: £202,972,000 and 30 June 2016: £197,827,000) and on 363,524,417 (31 December 2015: 356,988,325 and 30 June 2016: 361,774,417) ordinary shares, being the number of ordinary shares in issue at the period end.

### 10. Related Parties

The following are considered related parties: the Board of Directors ("the Board") and CQS/New City Investment Managers ("the Investment Manager"):

All transactions with related parties are carried out on an arms length basis.

There are no other transactions with the Board other than aggregated remuneration for services as Directors. There are no outstanding balances to the Board at the period end.

Details of the fee arrangement with the Investment Manager are disclosed in note 5.

### 11. Financial Information

These are not statutory accounts in terms of Section 434 of the Companies Act 2006 and have not been audited or reviewed by the Company's auditors. The information for the year ended 30 June 2016 has been extracted from the latest published financial statements which received an unqualified audit report and have been filed with the Registrar of Companies. No statutory accounts in respect of any period after 30 June 2016 have been reported on by the Company's auditors or delivered to the Registrar of Companies.



# Directors' Statements

## Directors' Statement of Principal Risks and Uncertainties

The Company's assets consist principally of listed fixed interest securities and its principal risks are therefore market related. The Company is also exposed to currency risk in respect of the markets in which it invests. Other key risks faced by the Company relate to investment and strategy, market, financial, earnings and dividend, operational and regulatory matters. These risks, and the way in which they are managed, are described in more detail under the heading 'Principal risks and risk management' within the Directors' Report and Business Review contained within the Company's annual report and accounts for the year ended 30 June 2016. The Company's principal risks and uncertainties have not changed materially since the date of the report and are not expected to change materially for the rest of the Company's financial year.

## Directors' Responsibility Statement in Respect of the Interim Report

We confirm that to the best of our knowledge:

- the condensed set of financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Chairman's Statement and Investment Manager's Review includes a fair review of the information required by the Disclosure Guidance and Transparency Rules ("DTR") 4.2.7R, being an indication of important events that have occurred during the first six months of the financial year and their impact on the financial statements;
- the Directors' Statement of Principal Risks and Uncertainties shown above is a fair review of the information required by DTR 4.2.7R; and
- the condensed set of financial statements include a fair review of the information required by DTR 4.2.8R, being related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or performance of the Company during that period, and any changes in the related party transactions described in the last annual report that could do so.

Signed on behalf of the Board

**J G West**  
Chairman

3 March 2017

## Glossary of Terms and Definitions

---

<b>Asset Cover</b>	The value of a company's net assets available to repay a certain security. Asset cover is usually expressed as a multiple and calculated by dividing the net assets available by the amount required to repay the specific security.
<b>Discount/Premium</b>	The amount by which the market price per share of an investment trust is lower or higher than the net asset value per share. The discount or premium is normally expressed as a percentage of the net asset value per share.
<b>Dividend Cover</b>	Earnings per share divided by dividends per share expressed as a ratio.
<b>Dividend Yield</b>	The annual dividend expressed as a percentage of the share price.
<b>Gearing</b>	The level of borrowing that the Company has undertaken. Represented by total assets (as below) less all cash, expressed as a percentage of shareholders' funds.
<b>Net Asset Value or NAV</b>	The value of total assets less 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.
<b>Ongoing Charges Ratio</b>	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.
<b>Prior Charges</b>	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.
<b>Redemption Yield</b>	The measure of the annualised total return on the current price of a security up to the date of its repayment. The calculation is based on aggregated income and capital returns, no account being taken of taxation.
<b>Revenue earnings per share</b>	The revenue earnings for the period divided by the weighted average number of shares.
<b>Total Assets</b>	Total assets less current liabilities (excluding prior charges as defined above).
<b>Total Return</b>	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 or net asset value. The dividends are assumed to have been reinvested in the form of ordinary shares or net assets.

### **Registered Number**

95691

### **Registered Office**

CQS New City High Yield Fund Limited  
Ordnance House, 31 Pier Road  
St. Helier, Jersey JE4 8PW  
Channel Islands

### **Directors**

James G West (Chairman)  
Duncan A H Baxter  
Gavin D P Breeze (resigned 18 July 2016)  
Ian Cadby (appointed 18 January 2017)  
Adrian J R Collins  
Wendy J Dorman

### **Investment Manager**

New City Investment Managers  
CQS Cayman Limited Partnership  
1 Strand  
London  
WC2N 5HR

### **AIFM**

CQS (UK) LLP  
1 Strand  
London  
WC2N 5HR

### **Company Secretary and Administrator**

R&H Fund Services (Jersey) Limited  
Ordnance House, 31 Pier Road  
St. Helier, Jersey JE4 8PW  
Channel Islands  
Tel: 01534 825200

### **UK Administrator**

R&H Fund Services Limited  
20 Forth Street  
Edinburgh, EH1 3LH  
Tel: 0131 550 3760

### **Registrars**

Computershare Investor Services (Jersey) Limited  
Queensway House, Hilgrove Street  
St. Helier, Jersey JE1 1ES  
Channel Islands  
Tel: 01534 281800

### **Financial Adviser and Corporate Broker**

Cantor Fitzgerald Europe  
One Churchill Place  
Canary Wharf  
London E14 5RB

### **Auditor**

KPMG LLP  
20 Castle Terrace  
Edinburgh EH1 2EG

### **Bankers, Custodian Bankers and Depository**

HSBC Bank PLC  
8 Canada Square  
London E14 5HQ

Scotiabank Europe plc  
201 Bishopgate  
6th Floor  
London  
EC2M 3NS

### **Jersey Lawyers to the Company**

Ogier  
Ogier House, The Esplanade  
St. Helier  
Jersey, JE4 9WG  
Channel Islands

### **UK Solicitors to the Company**

Maclay Murray & Spens LLP  
One London Wall,  
London EC2Y 5AB

### **Website**

[www.ncim.co.uk](http://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@ccqsm.com](mailto:clientservice@ccqsm.com) or alternatively by visiting the Company's web site at [www.ncim.co.uk](http://www.ncim.co.uk).

---

CQS NEW CITY  
HIGH YIELD FUND  
LIMITED

---