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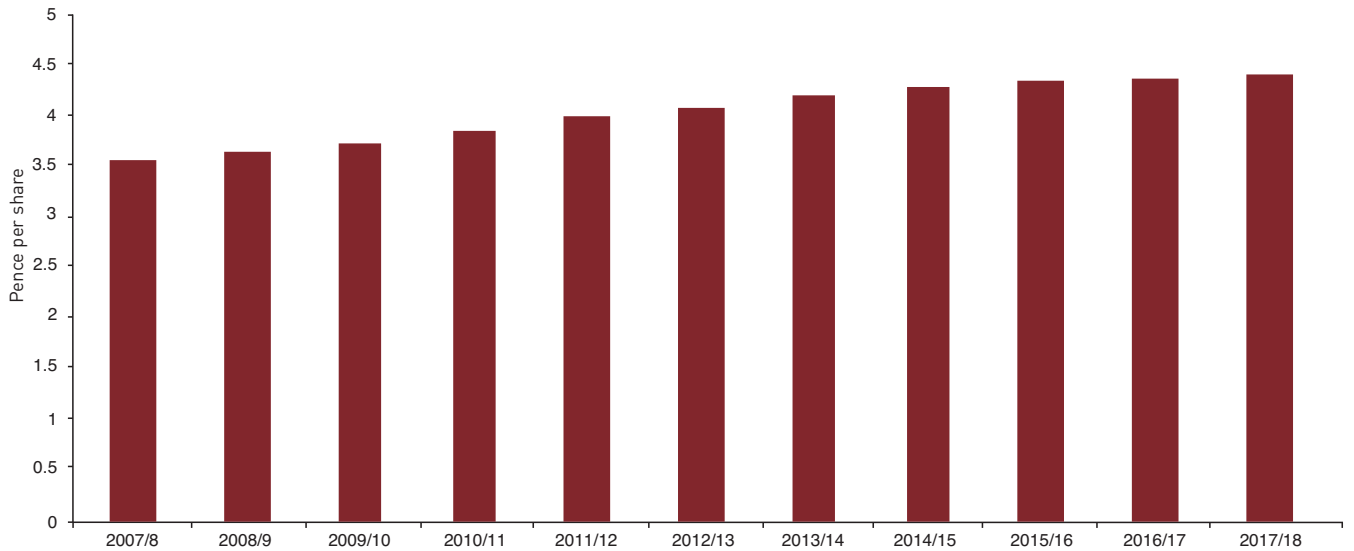
CQS NEW CITY  
HIGH YIELD FUND  
LIMITED

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INTERIM REPORT

31 DECEMBER 2017

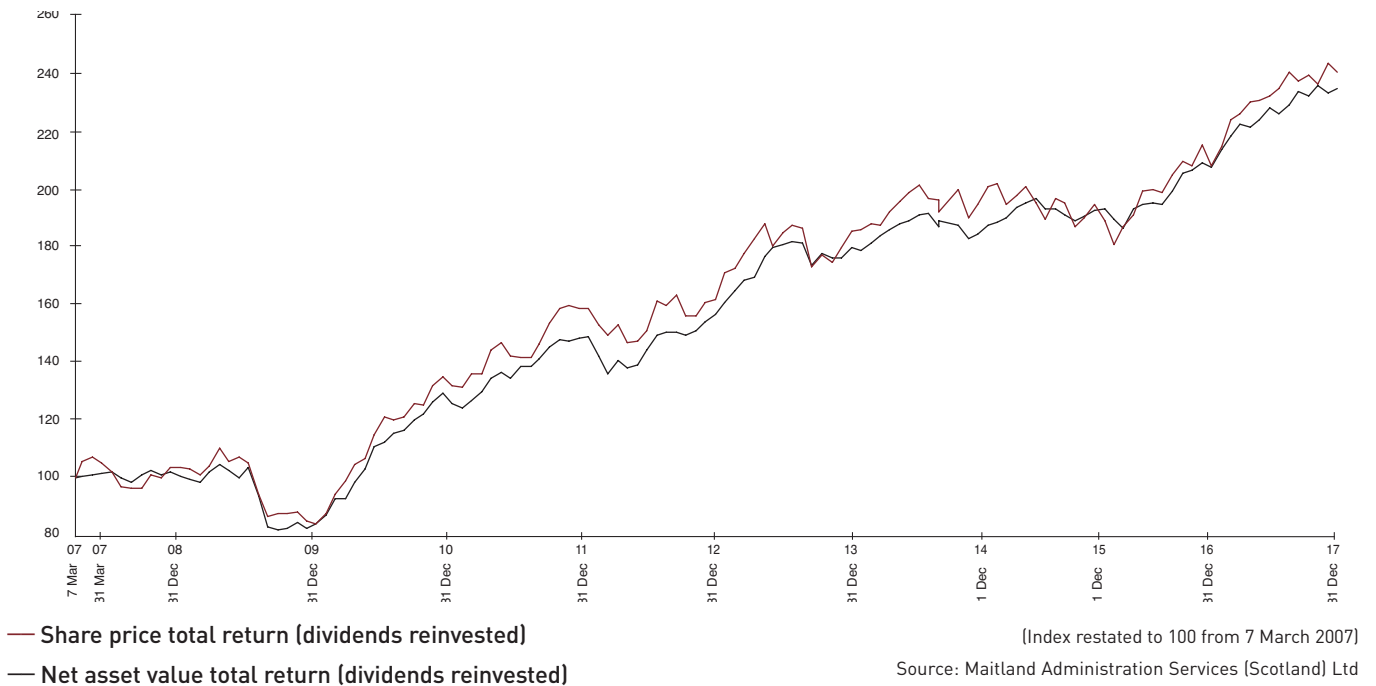
### Dividends Declared in Respect of Each Financial Year



\*2017/18 assumes that the third interim dividend in respect of the financial year ended 30 June 2018 remains in line with the second interim dividend paid for that year at 0.99 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 2017 of 1.45 pence per share.

Source: Maitland Administration Services (Scotland) Ltd

### Net Asset Value Total Return and Share Price Total Return



## 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.

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## Financial Highlights

<b>Total Return*</b>	Six months to 31 December 2017	Six months to 31 December 2016		
Net asset value	3.92%	9.80%		
Ordinary share price	2.70%	8.06%		

<b>Capital Values</b>	31 December 2017	30 June 2017	% change	
Total assets less current liabilities (with the exception of the bank loan facility)	£253.8m	£242.6m	4.62%	
Net asset value per ordinary share	58.58p	58.77p	(0.32)%	
Share price (mid market)	62.00p	62.75p	(1.20)%	

<b>Revenue and Dividends</b>	Six months to 31 December 2017	Six months to 31 December 2016	% change	
Revenue earnings per ordinary share	2.17p	2.42p	(10.33)%	
Dividends per ordinary share	1.98p	1.96p	1.02%	

<b>Other Highlights</b>	31 December 2017	30 June 2017		
Premium*	5.84%	6.77%		
Gearing*	11.6%	8.3%		

<b>Dividend History</b>	Rate	xd date	Record date	Payment date
First interim 2018	0.99p	26 October 2017	27 October 2017	30 November 2017
Second interim 2018	0.99p	25 January 2018	26 January 2018	28 February 2018
<b>Total</b>	<b>1.98p</b>			
First interim 2017	0.98p	27 October 2016	28 October 2016	27 November 2016
Second interim 2017	0.98p	26 January 2017	27 January 2017	28 February 2017
Third interim 2017	0.98p	27 April 2017	29 April 2017	27 May 2017
Fourth interim 2017	1.45p	27 July 2017	29 July 2017	31 August 2017
<b>Total</b>	<b>4.39p</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 3.92%.
- Ordinary share price total return of 2.70%.
- Dividend yield of 7.1%, based on dividends at an annualised rate of 4.42 pence and a share price of 62.00 pence at 31 December 2017.
- Ordinary share price at a premium of 5.84% to net asset value at 31 December 2017.
- £9.0m of equity raised during the period.

## Investment and Share Price Performance

The Company's net asset value total return\* was 3.92% for the six months to 31 December 2017. The share price total return\* for the same period was 2.70%, the premium to net asset value at which the Company's shares trade narrowed a little to 5.8%. The average premium over the six months to 31 December 2017 was 5.81% and over three years 3.87%.

It was always unlikely that last year's very strong returns would be repeated, but the markets have digested political change in the United States, Europe and the United Kingdom. Ian Francis, your investment manager, discusses the period under review in his review on page 4.

## Earnings and Dividends

The Company declared two dividends of 0.99 pence in respect of the period, an increase of 1.0% on those declared in respect of the same period last year. In the absence of unforeseen circumstances, the Board expects to follow the same pattern of dividend payments as declared in the last two years and, based on a maintained annualised rate of 4.42 pence and a share price of 60.20 pence at the time of writing, this represents a dividend yield\* of 7.3%.

## Gearing

The Company renewed its existing £30m loan facility with Scotiabank in December 2017 at a current all-in rate of 1.47%. The new facility is on comparable terms with the one that it replaced. £28m was drawn down at 31 December 2017 and the Company had an effective gearing rate of 11.6%.

## Rating and Fund Raising

The market continued to attach a premium rating to the shares of your Company throughout the period under review. Taking advantage of this, the Company raised £9.0m from new and existing shareholders during the six months to 31 December 2017, selling the shares out of treasury. A further £3.1m has been raised since the period end and a balance of 7.4m shares remain in treasury. As well as a modest increase in net asset value from any issue of shares, existing shareholders can look to benefit from a lower ongoing charges ratio\* and greater liquidity in the Company's shares.

## Board

I am delighted to welcome Caroline Hitch, who joined us on 15 March 2018, to the Board. After a number of years with James Capel and Standard Chartered, Caroline worked for 24 years at HSBC, where she had an investment focus on multi asset portfolios and a strong interest in transparency and governance. These are skills that complement and deepen the Board's resources and I am delighted that she has chosen to join us.

I recorded our thanks to Adrian Collins, who retired at the AGM, and welcomed John Newlands when I wrote to you in October. The number of Directors is now six, five of whom have been appointed within the last three years.

## Outlook

I said above that markets have digested a considerable amount of political change, but it is politics that continue to give us most cause for concern. Since the period end, equity markets which had looked to a robust United States' economy and a Eurozone that continues to recover strongly have begun to see increased volatility in the face of talk of a trade war. Bond markets, too, reflect some of the risks, with global bond yields and spreads rising.

Portfolio diversification remains our watchword as we look for opportunities in a world where, in the view of the Federal Reserve at least, a turning point has been reached in the interest rate cycle.

**James G West**  
Chairman

23 March 2018

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

## 4 Investment Manager's Review

During the last six months it has become more apparent that the British economy is no longer matching either Europe or the United States.

The main knock on from the Brexit vote has been the weakness of Sterling against the Euro and to a lesser extent the US\$. This has had two major effects. Firstly inflation, which was already at 2.9% in June and finished the period under review at 3.0%. There is no doubt that these figures were part of the reasons behind the Bank of England's 25bp rate rise in December to 0.5%. Whilst prices were increasing at around 3.0%, household finances continued to be squeezed as wage growth was between 2.1% and 2.5% hitting savings ratios and increasing credit card spending. Further to this, a survey released by the FCA disclosed that 1.4 million credit card holders had only paid their minimum payment for the last three years. This certainly had a negative effect on retail sales over much of the period, with nonfood retail relying even more on the Black Friday and pre-Christmas sales than previously. New car sales too took a pasting, down 11.2% in the month of November with the brunt shouldered by diesel, down 30.6%. The overall figure for calendar year 2017 was down 5.6% for all vehicle sales. So overall, not great for consumers or retail.

The second effect of the weakness in Sterling has been positive. UK factory orders, at plus 17%, are the highest since August 1998 with orders for chemicals, electronics, and transport goods noticeably up. Job creation was good in the period in both services and manufacturing sectors with employment highs being reached in November. Another positive piece of news was the lower than expected Public Sector Borrowing Requirement also announced in November with the year on year figure down by £4.1 bn to £38.5bn, the lowest since 2007.

We remain with our view that the biggest risk to the UK is political and highly influenced by the media with its addiction to having daily headlines on Brexit and Theresa May's position as Prime Minister.

By contrast Europe has continued to expand, be it in Manufacturing, Services, Retail Sales or the 4.1% increase in car sales up to the end of November. This can be evidenced by the composite Purchasing Managers Index data which are at their highest since April 2011 having increased throughout the period. Retail Sales grew consistently with a consecutive nine month rise in like-for-like sales which equals the record run seen in 2006. The coalition talks in Germany, now resolved, will have a greater effect on immigration to Europe rather than the economy. And Europe will not be giving much away in the Brexit talks; why would they? The overall message coming from Europe is that they are in a far better place in the cycle than the UK.

In the United States, away from the noise and tweeting inside the White House, the economy had a very good six months, continuing to add jobs throughout the period with unemployment falling to 4.1%. Add to this productivity improvements of 3%, compensation costs for workers at plus 2.5% against an all items inflation level of 2%, and the net result to the average American worker is that they should be feeling far more comfortable than their UK counterpart. When you add in the tax changes introduced in December by the Trump administration which benefitted the wealthier Americans, it is easy to see why there has been so much froth in equity markets.

For the Company we had several bonds called or tendered for in the period: Aker BP 10.25% 2022 (at 110), Louis Dreyfus 8.25% perpetual, and Old Mutual 7.875% 2025 (at 125). Tizir rolled its bonds into a 9.5% bond of 2022. Other major sale transactions were the top slicing of Unique Pubs 7.395% 2023 and sales of Nextenergy Solar equity, LV 6.5% 2043, Nat West 9% preference, and Nat West 11.5% perpetual. The major purchases were Wittur 8.5% 2023, REA Holdings 9% preference, Raven Russia 12% preference, TES Finance 6.75% 2020, New Look 6.5% 2022, Green King Equity, Regional REIT equity, Ardonagh 8.375% 2023, Punch Taverns 7.375% 2025, Hertz 7.375% 2021, Bombardier 7.5% 2025 and Shawbrook 7.875% perpetual. We continue to look for diversity in the investments we make, whilst maintaining our belief in the ongoing strength of the Financials sector.

**Ian Francis**  
New City Investment Managers  
23 March 2018

## Classification of Investment Portfolio

By Currency	As at 31 December 2017 Total investments %	As at 31 December 2016 Total investments %	As at 30 June 2017 Total investments %
Sterling	71	75	72
US Dollar	20	16	20
Euro	5	6	4
Australian Dollar	1	1	1
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 31 December 2017 Total investments %	As at 31 December 2016 Total investments %	As at 30 June 2017 Total investments %
Bonds	83	85	84
Equity shares	15	15	13
Convertible bonds	2	–	3
<b>Total investments</b>	<b>100</b>	<b>100</b>	<b>100</b>

By Quotation	As at 31 December 2017 Total investments %	As at 31 December 2016 Total investments %	As at 30 June 2017 Total investments %
Listed/Quoted on a recognised investment exchange	100.0	99.9	99.2
Unquoted	–	0.1	0.8
<b>Total investments</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## Classification of Investment Portfolio by Sector

	Dec 2017 % of total investments	Dec 2016 % of total investments	Jun 2017 % of total investments
Oil & Gas	4.9	3.3	4.3
Basic Materials	2.3	2.1	2.6
Industrials	6.2	5.1	6.4
Consumer Goods	8.5	11.5	8.4
Consumer Services	15.2	10.5	15.2
Healthcare	0.2	0.8	0.4
Telecommunications	3.3	4.6	3.2
Utilities	0.3	2.7	1.3
Financials	56.8	58.9	56.6
Technology	2.3	0.5	1.6
<b>Total Investments</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

# Investment Portfolio

as at 31 December 2017

Company	Sector	Valuation £'000	Total Investments %
Punch Taverns 7.75% 30/12/2025	Restaurants & Bars	8,389	3.4
CYBG 8% Variable Perpetual	Banks	8,377	3.4
Garfunkelux Holdco 11% 01/11/2023	Insurance	7,157	2.9
REA Finance 8.75% 31/08/2020	Food Products	6,867	2.8
Galaxy Finco 7.875% 15/11/2021	Insurance	6,659	2.7
Onesavings Bank 9.125% Variable Perpetual	Banks	6,380	2.6
Barclays Bank 7% Variable Perpetual	Banks	6,190	2.5
PizzaExpress Financing 8.625% 01/08/2022	Restaurants & Bars	5,778	2.3
Partnership Life Assurance 9.5% 24/03/2025	Insurance	5,747	2.3
Euronav Luxembourg SA 7.5% 31/05/2022	Financial	5,590	2.3
<b>Top ten investments</b>		<b>67,134</b>	<b>27.2</b>
Unique Pubs 7.395% 28/03/2024	Restaurants & Bars	5,515	2.2
Trafigura Beheer BV 7.625% Variable Perpetual	Financial	5,213	2.1
JRP Group 9% 26/10/2026	Financial	5,149	2.1
SAS AB Preferred	Transport	5,117	2.1
Virgin Money 8.75% Variable Perpetual	Banks	4,605	1.9
Balfour Beatty Preferred 9.675% 01/07/2020	Construction	4,594	1.9
Aldermore Group 11.875% Variable Perpetual	Banks	4,558	1.8
Lloyds Banking Group 7.625% Variable Perpetual	Banks	4,551	1.8
Wittur 8.5% 15/02/2023	Technology	4,267	1.7
Johnston Press 8.625% 01/06/2019	Media	4,203	1.7
<b>Top twenty investments</b>		<b>114,906</b>	<b>46.5</b>
REA Holdings 9% Preferred	Food Products	4,153	1.7
TES Finance 6.75% 15/07/2020	Financial	4,152	1.7
Hertz 7.375% 15/01/2021	Consumer services	4,103	1.7
Oilflow SPV 1 DAC 12% 13/01/2022	Oil & Gas	4,007	1.6
Altice SA 7.75% 15/05/2022	Telecommunications	3,633	1.5
Perform Group Financing 8.5% 15/11/2020	Financial	3,624	1.5
Tizir 9.5% 19/07/2022	Mining	3,548	1.4
Aggre Micro 8% 17/10/2036	Industrials	3,432	1.4
Lloyds Banking Group 7.875% Variable Perpetual	Banks	3,365	1.4
Paragon Group 7.25% 09/09/2026	Financial	3,261	1.3
<b>Top thirty investments</b>		<b>152,184</b>	<b>61.7</b>
Permanent TSB 8.625% Variable Perpetual	Banks	3,185	1.3
Deutsche Bank 7.125% Variable Perpetual	Banks	3,152	1.3
Hurricane Energy Convertible 7.5% 24/07/2022	Oil & Gas	3,111	1.3
Virgin Money 7.875% Variable Perpetual	Banks	3,057	1.2
Raven Russia 12% Preferred	Real Estate	2,984	1.2
Shawbrook 7.875% Variable Perpetual	Financial	2,968	1.2
Channel Islands Property Fund	Real Estate	2,940	1.2
Nationwide Building Society 10.25% Variable Perpetual	Banks	2,931	1.2
New Look 6.5% 01/07/2022	Consumer goods	2,601	1.0
Tesco Property 7.6227% 13/07/2039	Real Estate	2,590	1.0
<b>Top forty investments</b>		<b>181,703</b>	<b>73.6</b>



Company	Sector	Valuation £'000	Total Investments %
SQN Secured Income Fund	Financial	2,551	1.0
RM Secured Direct Lending	Financial	2,513	1.0
UBS Group AG 7% Variable Perpetual	Banks	2,511	1.0
Arqiva Broadcast Fin 9.5% 31/03/2020	Telecommunications	2,341	0.9
Provident Financial 8% 23/10/2019	Insurance	2,282	0.9
HDL Debenture 10.375% 31/07/2023	Real Estate	2,253	0.9
Altice SA 7.25% 15/05/2022	Telecommunications	2,248	0.9
Garfunkelux Holdco 3 SA 8.5% 01/11/2022	Insurance	2,199	0.9
John Laing Environmental Assets Group	Industrials	2,175	0.9
American Tanker 9.25% 22/02/2022	Oil & Gas	2,146	0.9
<b>Top fifty investments</b>		<b>204,922</b>	<b>82.9</b>
Pension Insurance 8% 23/11/2026	Insurance	1,894	0.8
Rothschild Continental 9%	Perpetual Financial	1,843	0.7
Oro Negro 7.5% 24/01/2019	Oil & Gas	1,694	0.7
Personalhuset Staffing FRN 11/09/2019	Support services	1,677	0.7
Barclays 7.875% Variable	Perpetual Banks	1,668	0.7
Greene King	Consumer goods	1,665	0.7
Brighthouse Group 7.875% 15/05/2018	Retail	1,551	0.6
Palace Capital	Real Estate	1,546	0.6
Regional REIT	Real Estate	1,507	0.6
Bombardier 7.5% 15/03/2025	Industrials	1,488	0.6
<b>Top sixty investments</b>		<b>221,455</b>	<b>89.6</b>
Borealis Finance 7.5% 16/11/2022	Financial	1,471	0.6
Veritas US 7.5% 01/02/2023	Technology	1,409	0.6
Bluewater Holding 10% 10/12/2019	Industrials	1,270	0.5
Crown Resorts FRN 14/09/2072	Entertainment	1,177	0.5
Altice Financing SA 7.5% 15/05/2026	Telecommunications	1,175	0.5
VPC Speciality Lending Investments	Financial	1,155	0.5
Foresight Solar	Financial	1,073	0.4
Principality Building Society 7% Variable Perpetual	Financial	1,072	0.4
Gran Colombia Gold Corp 6% Convertible 02/01/2020	Basic materials	1,034	0.4
Ardonagh 8.375% 15/07/2023	Financial	1,016	0.3
<b>Top seventy investments</b>		<b>233,307</b>	<b>94.3</b>
Other investments (46)		14,076	5.7
<b>Total investments</b>		<b>247,383</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 2017

	Valuation 30 June 2017 £'000	Purchases £'000	Sales £'000	Appreciation £'000	Valuation 31 December 2017 £'000
<b>Punch Taverns 7.75% 30/12/2025</b> A public house operator in the United Kingdom.	5,665	2,439	-	285	8,389
<b>CYBG 8% Variable Perpetual</b> A British banking company concentrating on UK Retail and SME regional banking services.	5,458	2,525	-	394	8,377
<b>Garfunkelux Holdco 11% 01/11/2023</b> A global speciality insurer and re-insurer.	6,829	543	-	(215)	7,157
<b>REA Finance 8.75% 31/08/2020</b> Cultivator of oil palms and production of crude palm oil and palm products.	6,367	505	-	(5)	6,867
<b>Galaxy Finco Ltd 7.875% 15/11/2021*</b> A specialist provider of warranties for consumer electric products.	6,832	-	-	(173)	6,659
<b>Onesavings Bank Plc 9.125% Variable Perpetual</b> A British banking company specialising in residential, buy to let and commercial mortgages.	5,974	-	-	406	6,380
<b>Barclays Bank 7% Variable Perpetual</b> A British multinational banking and financial services company.	6,008	-	-	182	6,190
<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.	6,118	-	-	(340)	5,778
<b>Partnership Life Assurance 9.5% 24/03/2025</b> An insurance company which offers specialist products for people with health conditions.	5,613	-	-	134	5,747
<b>Euronav Luxembourg SA 7.5% 31/05/2022</b> An international shipping enterprise focussing on crude oil transport.	5,713	-	-	(123)	5,590
	60,577	6,012	-	545	67,134

At 31 December 2017 these investments totalled £67,134k or 27.2% of the portfolio.

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

# Condensed Income Statement

For the six months ended 31 December 2017

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Notes	Six months ended 31 December 2017 (unaudited)			Six months ended 31 December 2016 (unaudited)			Year ended 30 June 2017 (audited)			
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	
<b>Capital gains on investments</b>										
Gains on investments	3	–	212	212	–	10,022	10,022	–	13,978	13,978
Exchange gains		–	174	174	–	143	143	–	189	189
<b>Revenue</b>										
Income	4	9,443	–	9,443	10,077	–	10,077	19,490	–	19,490
<b>Total income</b>		<b>9,443</b>	<b>386</b>	<b>9,829</b>	<b>10,077</b>	<b>10,165</b>	<b>20,242</b>	<b>19,490</b>	<b>14,167</b>	<b>33,657</b>
<b>Expenses</b>										
Investment management fee	5	(730)	(243)	(973)	(679)	(226)	(905)	(1,390)	(463)	(1,853)
Other expenses		(322)	–	(322)	(338)	(10)	(348)	(666)	(53)	(719)
<b>Total expenses</b>		<b>(1,052)</b>	<b>(243)</b>	<b>(1,295)</b>	<b>(1,017)</b>	<b>(236)</b>	<b>(1,253)</b>	<b>(2,056)</b>	<b>(516)</b>	<b>(2,572)</b>
<b>Profit before finance costs and taxation</b>		<b>8,391</b>	<b>143</b>	<b>8,534</b>	<b>9,060</b>	<b>9,929</b>	<b>18,989</b>	<b>17,434</b>	<b>13,651</b>	<b>31,085</b>
<b>Finance costs</b>										
Interest receivable		–	–	–	–	–	–	1	–	1
Interest payable and similar charges		(128)	(43)	(171)	(125)	(42)	(167)	(250)	(83)	(333)
<b>Profit before taxation</b>		<b>8,263</b>	<b>100</b>	<b>8,363</b>	<b>8,935</b>	<b>9,887</b>	<b>18,822</b>	<b>17,185</b>	<b>13,568</b>	<b>30,753</b>
Irrecoverable withholding tax		(74)	–	(74)	(132)	–	(132)	(215)	–	(215)
<b>Profit after taxation</b>		<b>8,189</b>	<b>100</b>	<b>8,289</b>	<b>8,803</b>	<b>9,887</b>	<b>18,690</b>	<b>16,970</b>	<b>13,568</b>	<b>30,538</b>
<b>Earnings per ordinary share (pence)</b>										
	6	2.17	0.02	2.19	2.42	2.72	5.14	4.66	3.73	8.39

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.

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

# Condensed Balance Sheet

As at 31 December 2017

	Notes	As at 31 December 2017 (unaudited) £'000	As at 31 December 2016 (unaudited) £'000	As at 30 June 2017 (audited) £'000
<b>Non-current assets</b>				
Investments held at fair value		247,383	227,389	232,097
<b>Current assets</b>				
Other receivables		4,813	4,953	4,015
Cash and cash equivalents		1,861	1,626	6,831
		6,674	6,579	10,846
<b>Total assets</b>		<b>254,057</b>	<b>233,968</b>	<b>242,943</b>
<b>Current liabilities</b>				
Bank loan facility	7	(28,000)	(25,000)	(25,000)
Other payables		(222)	(246)	(268)
<b>Total liabilities</b>		<b>(28,222)</b>	<b>(25,246)</b>	<b>(25,268)</b>
<b>Net assets</b>		<b>225,835</b>	<b>208,722</b>	<b>217,675</b>
<b>Stated capital and reserves</b>				
Stated capital account	8	168,646	155,410	159,647
Special distributable reserve		50,385	50,385	50,385
Capital reserve		(8,657)	(12,438)	(8,757)
Revenue reserve		15,461	15,365	16,400
<b>Equity shareholders' funds</b>		<b>225,835</b>	<b>208,722</b>	<b>217,675</b>
<b>Net asset value per ordinary share (pence)</b>	9	<b>58.58</b>	<b>57.47</b>	<b>58.77</b>

Approved by the Board of Directors on 23 March 2018 and signed on its behalf by:

J G West  
Chairman

# Condensed Statement of Changes in Equity

For the six months ended 31 December 2017 (unaudited)

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	Notes	Stated capital account £'000	Special distributable reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 1 July 2017		159,647	50,385	(8,757)	16,400	217,675
<b>Total comprehensive income for the period:</b>						
Profit for the period		-	-	100	8,189	8,289
<b>Transactions with shareholders recognised directly in equity:</b>						
Dividends paid	2	-	-	-	(9,128)	(9,128)
Issue of shares		8,999	-	-	-	8,999
At 31 December 2017		168,646	50,385	(8,657)	15,461	225,835

For the six months ended 31 December 2017 (unaudited)

	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 year ended 30 June 2017 (audited)

	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 year:</b>						
Profit for the year		-	-	13,568	16,970	30,538
<b>Transactions with owners recognised directly in equity:</b>						
Dividends paid	2	-	-	-	(15,940)	(15,940)
Issue of shares		5,250	-	-	-	5,250
At 30 June 2017		159,647	50,385	(8,757)	16,400	217,675

# Condensed Cash Flow Statement

For the six months ended 31 December 2017

	Six months ended 31 December 2017 (unaudited) £'000	Six months ended 31 December 2016 (unaudited) £'000	Year ended 30 June 2017 (audited) £'000
<b>Operating activities</b>			
Profit before finance costs and taxation	8,534	18,989	31,085
Gains on investments	(212)	(10,022)	(13,978)
Effective yield	(461)	(414)	(558)
Exchange gains	(174)	(143)	(189)
Increase in other receivables	(798)	(1,001)	(63)
(Decrease)/increase in other payables	(46)	(10)	10
<b>Net cash inflow from operating activities before interest and taxation</b>	<b>6,843</b>	<b>7,399</b>	<b>16,307</b>
Interest paid	(157)	(167)	(331)
Irrecoverable withholding tax paid	(74)	(132)	(215)
<b>Net cash inflow from operating activities</b>	<b>6,612</b>	<b>7,100</b>	<b>15,761</b>
<b>Investing activities</b>			
Purchases of investments	(46,372)	(35,807)	(91,438)
Sales of investments	31,745	30,735	85,759
<b>Net cash outflow from investing activities</b>	<b>(14,627)</b>	<b>(5,072)</b>	<b>(5,679)</b>
<b>Financing activities</b>			
Equity dividends paid	(9,128)	(8,808)	(15,940)
Drawdown of bank loan facility	3,000	–	–
Issue of ordinary shares	8,999	1,013	5,250
<b>Net cash inflow/(outflow) from financing activities</b>	<b>2,871</b>	<b>(7,795)</b>	<b>(10,690)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(5,144)</b>	<b>(5,767)</b>	<b>(608)</b>
Cash and cash equivalents at the start of the period	6,831	8,201	8,201
Movement on bank overdraft	–	(951)	(608)
Cashflow	(5,144)	(5,767)	(951)
Exchange gains	174	143	189
<b>Cash and cash equivalents at the end of the period<sup>†</sup></b>	<b>1,861</b>	<b>1,626</b>	<b>6,831</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 2017 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 2017.

### 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 2017		Six months ended 31 December 2016		Year ended 30 June 2017	
	£'000	Rate (pence)	£'000	Rate (pence)	£'000	Rate (pence)
<b>In respect of the previous period:</b>						
Fourth interim dividend	5,392	1.45	5,246	1.45	5,246	1.45
<b>In respect of the period under review:</b>						
First interim dividend	3,736	0.99	3,562	0.98	3,563	0.98
Second interim dividend	-	-	-	-	3,563	0.98
Third interim dividend	-	-	-	-	5,368	0.98
	<b>9,128</b>	<b>2.44</b>	<b>8,808</b>	<b>2.43</b>	<b>15,940</b>	<b>4.39</b>

A second interim dividend in respect of the year ending 30 June 2018 of 0.99p per ordinary share was paid on 28 February 2018 to shareholders on the register on 27 January 2018. 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 2017 are realised gains of £47,000 (31 December 2016: £86,000 at 30 June 2017: £1,897,000) and unrealised gains of £165,000 (31 December 2016: £9,936,000 at 30 June 2017: £12,081,000).

## 4. Income

The breakdown of income for the period was as follows:

	Six months ended 31 December 2017 £'000	Six months ended 31 December 2016 £'000	Year ended 30 June 2017 £'000
<b>Income from investments:</b>			
Dividend income	815	953	2,177
Interest on fixed interest securities	8,628	9,124	17,313
<b>Total income</b>	<b>9,443</b>	<b>10,077</b>	<b>19,490</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 £973,000 were incurred, of which £166,000 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 £8,189,000 (31 December 2016: £8,803,000 and 30 June 2017: £16,970,000) and on a weighted average of 378,077,258 (31 December 2016: 363,161,029 and 30 June 2017: 364,129,724) ordinary shares in issue throughout the period.

The capital return per ordinary share is based on a net capital gain of £100,000 (31 December 2016: a net capital gain of £9,887,000 and 30 June 2017: a net capital gain of £13,568,000) and on a weighted average of 378,077,258 (31 December 2016: 363,161,029 and 30 June 2017: 364,129,724) ordinary shares in issue throughout the period.

## Notes to the Accounts (continued)

### 7. Bank Loan Facility

	31 December 2017 £'000	31 December 2016 £'000	30 June 2017 £'000
Bank loan facility	28,000	25,000	25,000

The Company has a short term loan facility with Scotiabank which is due to expire 18 December 2018.

As at the period end the unsecured loan facility had a limit of £30 million of which £28 million was drawn down as at 31 December 2017.

### 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	2017 £'000
Total issued share capital at 1 July 2017	370,374,417	159,647
1,500,000 ordinary shares of no par value allotted on 4 July 2017 at 62.5p	1,500,000	938
3,500,000 ordinary shares of no par value allotted on 2 August 2017 at 61.5p	3,500,000	2,152
2,000,000 ordinary shares of no par value allotted on 24 August 2017 at 62.1p	2,000,000	1,242
2,400,000 ordinary shares of no par value allotted on 30 October 2017 at 62.0p	2,400,000	1,488
1,250,000 ordinary shares of no par value allotted on 2 November 2017 at 62.5p	1,250,000	775
2,000,000 ordinary shares of no par value allotted on 17 November 2017 at 61.25p	2,000,000	1,225
1,250,000 ordinary shares of no par value allotted on 5 December 2017 at 61.5p	1,250,000	769
1,250,000 ordinary shares of no par value allotted on 18 December 2017 at 61.5p	1,250,000	769
Issue costs		(359)
Total issued share capital at 31 December 2017	385,524,417	168,646

The balance of shares left in Treasury as at 31 December 2017 was 12,747,441.

All the above share issues were allotted from Treasury.

### 9. Net Asset Value per Ordinary share

The net asset value per ordinary share is based on net assets at the period end of £225,835,000 (31 December 2016: £208,722,000 and 30 June 2017: £217,675,000) and on 385,524,417 (31 December 2016: 363,524,417 and 30 June 2017: 370,374,417) 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 2017 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 2017 have been reported on by the Company's auditors or delivered to the Registrar of Companies.

### 12. Post Balance Sheet Event

There were four share issues of shares from Treasury post the period end.

On 3 January 2018, 1,250,000 ordinary shares were allotted at a price of 62.00p.

On 10 January 2018, 1,250,000 ordinary shares were allotted at a price of 62.00p.

On 18 January 2018, 1,250,000 ordinary shares were allotted at a price of 62.10p.

On 26 January 2018, 1,250,000 ordinary shares were allotted at a price of 61.30p.

The balance of ordinary shares left in Treasury following these allotments is 7,427,441.



# 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, gearing, key person, regulatory and political 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 2017. 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

23 March 2018

## Glossary of Terms and Definitions

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<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 minus 100.
<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  
Ian Cadby  
Adrian J R Collins – resigned 12 December 2017  
Wendy Dorman  
John E Newlands – appointed 5 October 2017  
Caroline Hitch – appointed 15 March 2018

## 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 Jersey Administrator

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

## UK Administrator

Maitland Administration Services (Scotland) Limited  
20 Forth Street  
Edinburgh, EH1 3LH  
Tel: 0131 550 3765

## 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  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EG

## Custodian Bankers and Depository

HSBC Bank PLC  
8 Canada Square  
London E14 5HQ

## Bankers

HSBC Bank PLC  
8 Canada Square  
London E14 5HQ  
Scotiabank  
201 Bishopsgate  
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@cqsm.com](mailto:clientservice@cqsm.com) or alternatively by visiting the Company's web site at [www.ncim.co.uk](http://www.ncim.co.uk).

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