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INVESTOR

CQS New City High Yield Fund

Investment companies | Annual overview | 16 June 2026

Steady as he goes

CQS New City High Yield Fund (NCYF) continues to focus on delivering high income from a diverse portfolio of higher-yielding credit investments, aiming to protect capital through careful credit selection. Its dividend yield of around 9% remains attractive, especially given ongoing inflation, interest rate changes and geopolitical risks.

Despite recent challenges in credit markets, NCYF's net asset value (NAV) and share price total returns have stayed resilient. The manager transition from Ian "Franco" Francis to Darren Toner is underway. Darren brings 15 years of experience working with Franco and knows NCYF's process and portfolio well. Franco will also remain as a consultant until May 2027, supporting a smooth transition.

Sector	Debt – Loans & Bonds
Ticker	NCYF LN
Base currency	GBP
Price	50.8p
NAV	48.3p
Premium/(discount)	5.2%
Yield	8.9%

High-dividend yield and potential for capital growth

NCYF aims to provide investors with a high-dividend yield and the potential for capital growth by investing mainly in high-yielding fixed interest securities. These include, but are not limited to, preference shares, loan stocks, corporate bonds (convertible and/or redeemable) and government stocks. The company also invests in equities and other income-yielding securities. The manager has a strong focus on capital preservation and is conservative in his approach to growing NCYF's capital.

> Darren is already highly familiar with NCYF's portfolio, underlying credits and established investment process

> Franco will be available for three years after he steps back in May 2027

> NCYF's total annual dividend has increased every year since launch

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Domicile	Jersey
Inception date	17 January 2007
Manager	Ian Francis
Market cap	350.8m
Shares outstanding (exc. treasury shares)	690.452m
Daily vol. (1-yr. avg.)	1,919k shares
Net gearing	12.6%

Click for our last recent update note

Click here for an updated NCYF factsheet

Click here for NCYF's peer group analysis

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Click to provide feedback to the company

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Click for links to trading platforms

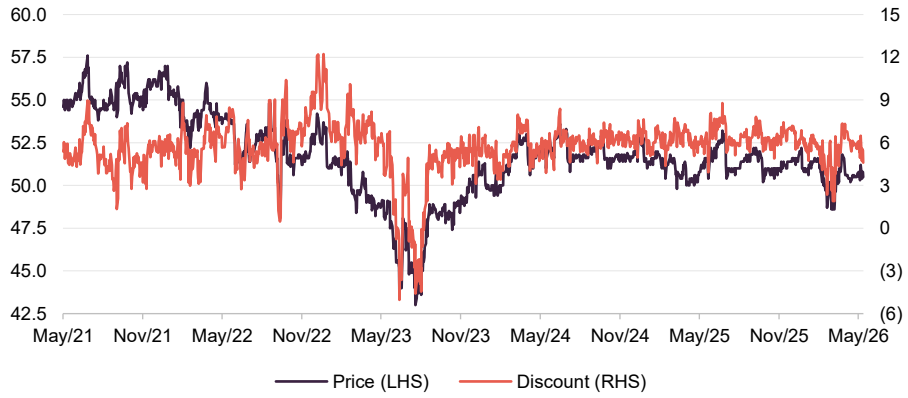
At a glance

Share price and premium/(discount)

The chart shows that NCYF's shares have traded at a premium to their underlying net asset value (NAV) for almost all of the past five years.

There is a fall in the share price and a brief shift to a discount in 2023. This is associated with a shift to more normal levels of inflation and interest rates.

Time period 31 May 2021 to 11 June 2026

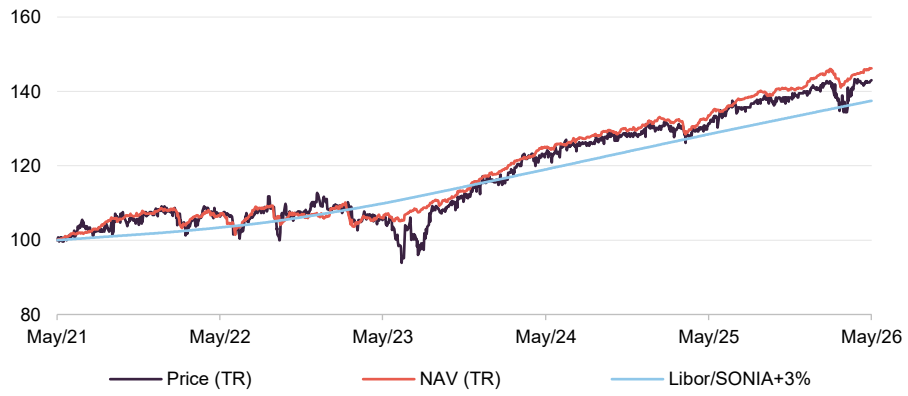


Source: Bloomberg, Marten & Co

Performance over five years

The chart shows NCYF's share price and NAV total returns over the past five years and compares them to a notional return on cash (as represented by LIBOR and later SONIA) plus 3% per annum. NCYF has provided an attractive excess return over this notional benchmark over the past five years.

Time period 31 May 2021 to 31 May 2026



Source: Bloomberg, Marten & Co

12 months ended	Share price total return (%)	NAV total return (%)	Libor/SONIA + 3% (%)[1]	CPI + 4% (%)
31/05/2022	6.3	6.6	3.4	8.4
31/05/2023	(0.8)	(0.7)	6.3	14.0
31/05/2024	16.9	18.0	8.3	9.3
31/05/2025	6.5	6.8	7.9	6.4
31/05/2026	8.9	9.5	7.0	7.4

Source: Bloomberg, Marten & Co. Note: 1) Switch to SONIA occurs at 28 March 2024.

Fund profile

Further information can be found at: ncim.co.uk

The manager seeks securities that are undervalued by the market.

NCIM has managed NCYF since its launch in March 2007.

Franco will be available for three years after he steps back in May 2027.

A predominantly higher-yielding fixed income exposure

NCYF aims to deliver high quarterly income and potential capital growth by mainly investing in higher-yield fixed income securities, with the option to invest in shares and related assets.

The manager looks for undervalued securities that can generate above-average income for their risk and offer capital growth potential. The strategy also takes advantage of market yield changes and corporate events such as redemptions, conversions, restructurings, and takeovers.

CQS Group and New City Investment Managers

New City Investment Managers (NCIM) has managed NCYF since its launch in March 2007 and previously managed its predecessor from 2004. NCIM became part of CQS Group in October 2007. In November 2023, CQS was acquired by Manulife Investment Management, a global asset manager with US$1.3 trillion under management and administration.

Manager transition underway as Darren Toner joins Franco

On 21 May 2026, Darren Toner, a senior portfolio manager at Manulife | CQS Investment Management, was appointed co-manager of NCYF alongside long-term manager Ian "Franco" Francis. This is part of a planned succession, with Franco expected to step back from managing the portfolio in May 2027 but remain as a consultant for about three years.

Darren joined CQS in 2010 and has worked closely with Franco for 15 years, giving him a strong grasp of NCYF's strategy and portfolio. He has recently been involved in supporting portfolio management, especially in finding and assessing investments and building the portfolio.

While some shareholders may be concerned about Franco stepping back after a long and successful period, Darren is already very familiar with NCYF's portfolio and investment process. He will continue to have support from the wider Manulife | CQS credit team of 40 specialists and analysts. With a long handover and Franco staying on as a consultant, this change is intended to ensure continuity rather than alter the investment approach.

Constructed without reference to a benchmark

NCYF is managed with a fixed income focus and an absolute return approach, without reference to a benchmark. Over the long term, we expect it to deliver positive real (above inflation) returns and outperform cash rates. For comparison, we show LIBOR/SONIA +3% and CPI +4%, though these are not official benchmarks for the fund.

Manager's view

Significant inflationary risks in the global economy

NCYF's manager has consistently warned that global inflation risks are still high and that disruption could keep inflation and interest rates elevated for longer than markets expect. Despite this, Ian entered 2026 with cautious optimism, as the UK economy was performing better than expected, with stronger domestic and export demand.

Cost pressures remain, especially in labour-intensive sectors like hospitality, due to higher national insurance and minimum wages. Supply-chain disruption is also an ongoing risk. Before the war in Iran, the UK economy was proving resilient, with new orders rising in both manufacturing and services. However, inflation staying above the Bank of England's 2% target and weaker labour market data continued to limit the Bank's scope to cut rates.

Few obvious safe havens from effects of Iran war

The war in Iran has had a major impact, with the closure of the Strait of Hormuz pushing Brent crude oil from just over $72 to almost $104 a barrel in March. This rise in oil prices affected interest rates, credit markets, shares, and currencies. UK government bonds weakened, credit spreads widened, equities dropped, and sterling fell against the dollar, as investors worried that energy and trade disruption could keep inflation higher for longer.

In the UK, inflation is rising again while the economy remains weak. Ian notes the Bank of England's challenge: it may need higher rates to control inflation, but this could hurt an already fragile economy. Although the 10-year gilt yield has dropped from 5.20% to 4.78%, and the 30-year yield is steady at about 5.5%, borrowing costs remain high and are likely to limit growth.

Europe faces similar problems. Early signs of recovery, especially in German manufacturing, have faded as higher costs and uncertainty from the conflict have hit both activity and confidence. Ian expects the ECB to keep rates steady until there is more clarity on the conflict, inflation, and the broader economic outlook.

US growth has also slowed. Manufacturing strength seems to be due to early orders ahead of expected price rises, not a real recovery in demand. The Federal Reserve, like the Bank of England and ECB, faces higher inflation but weak growth, making it hard to cut rates.

Volatility returns as inflation risks re-emerge

The managers expect continued volatility as markets gauge how long the conflict will last and its economic effects. Despite the US and Iran agreeing to extend their ceasefire and reopen the Strait of Hormuz, tensions remain high. Key facilities have been damaged, so it will take time for traffic to return to normal. This means higher inflation and market volatility may continue.

For high-yield investors, volatility can also bring opportunities. Some sectors, especially those tied to oil, have benefited from the disruption. NCYF's managers stress the importance of careful credit selection in this environment, but they are investing where prices are attractive and credit risk is reasonable. For instance, they

reduced their holding in Frontline after strong performance and used some of the proceeds to start a new equity position in Ithaca Energy.

Bottom-up investment process

NCYF builds its portfolio from the ground up, using detailed analysis to assess each investment's credit risk and return potential. This involves looking at free cash flow across equity, debt, preferred stock and convertibles, considering how changes in cash flow, interest rates or competition might affect the company, as well as its record in meeting obligations and the quality of its management.

The manager looks for undervalued securities that can generate good income for their level of risk, with potential for capital growth as their value improves. While generating and sustaining income is central, protecting capital is also a priority, and the manager will not risk capital just to achieve higher yields.

Low turnover portfolio

NCYF maintains a moderately concentrated portfolio. The top 10 holdings account for 25–30% of the portfolio.

The portfolio usually holds 110–120 positions, with the top 10 making up about 25–30% of assets. The largest holdings are generally easy to trade in normal markets. The manager focuses on a core group of well-understood investments, which keeps turnover low except when positions are called (some bonds have the option for issuers to repay them early).

Because many holdings have limited liquidity, investments are chosen for their potential returns if held to maturity, not for trading. Early exits mostly occur when issuers call the bonds (re-pay them early), often at a premium. Annual turnover is about 50%, but 30–40% of this is due to forced redemptions.

NCYF's portfolio has a duration of around three-and-a-half to four years. It earns a geared return of around 8% per annum and pays out a yield in the region of 7%.

The portfolio has a short duration of about three-and-a-half to four years, delivers a geared return of around 8% per year, and pays a yield of about 7%. This is achieved without using options or dividend stripping.

The manager does not hedge currency risk but avoids currencies they do not favour. For example, NCYF has not held Australian dollar assets since 2014/15.

Exposure to niche issues and unrated bonds

Exposure to smaller niche issues and unrated bonds can earn a yield premium.

The manager can assign internal credit ratings, enabling assessment of smaller, niche, and unrated issues. These often offer a premium of about 150–200bps for similar risk, helping NCYF achieve attractive risk-adjusted returns.

Investment restrictions

No defined limits on type of securities, countries, issue size or sectors.

NCYF can invest in fixed income, equities, and other income-generating securities, with no formal limits on type, country, size, or sector. However, exposure to any single company is capped at 5% of total investments. The fund may use derivatives, financial instruments, money market instruments, and currencies to manage the portfolio efficiently. It can also invest up to 10% of total assets in other funds, whether closed or open-ended, at the time of investment.

A maximum of 10% of total assets can be invested in collective investment vehicles.

Up to 10% of assets can be in unlisted or untraded securities, including those expected to become convertible into listed securities. If securities later become unlisted, they can be kept if the manager believes it is appropriate, within the same 10% limit.

NCYF is allowed to borrow, with gearing limited to 25% of net assets at the time of borrowing, and this is reviewed by the board. The manager aims to keep the portfolio fully invested but may hold more cash or money market instruments, or use derivatives, if market conditions require a more cautious approach.

Risk management

NCYF's board monitors the spread of investments.

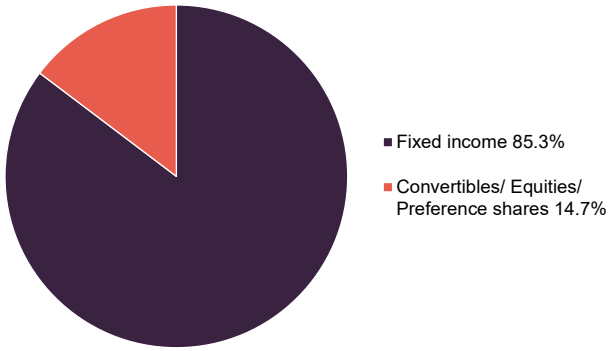
The board monitors portfolio diversification to keep exposure to individual countries, sectors and other risks at suitable levels. The manager uses risk controls to track and manage market and other key risks.

Manulife | CQS has a separate, permanent risk management team that is independent from the portfolio manager. This team does not manage NCYF's portfolio but instead runs policies and systems to identify, measure, monitor and report on all major risks relevant to the fund's strategy. Their tools include third-party systems like Tradar, Sungard Front Arena and MSCI RiskMetrics, as well as their own in-house tools.

Asset allocation

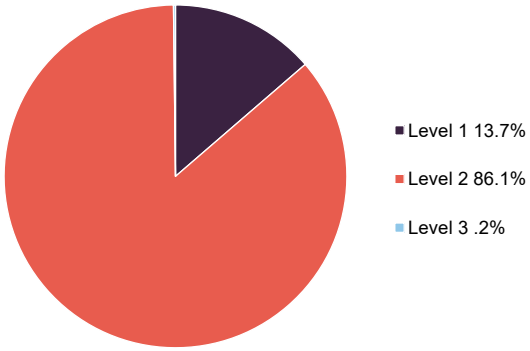
As of 30 April 2026, NCYF's portfolio held 96 issues, slightly fewer than the 99 held a year earlier. The top 10 issues made up 35.7% of the portfolio, down from 38.2% at the same point in 2025. Figures 1 to 4 show the latest breakdowns by asset class, fair value hierarchy, sector, and currency. NCYF has no investments in utilities, as the manager remains concerned about the reliability of dividends in that sector.

Figure 1: NCYF portfolio split by asset class at 30 April 2026



Source: CQS New City High Yield Fund, Marten & Co

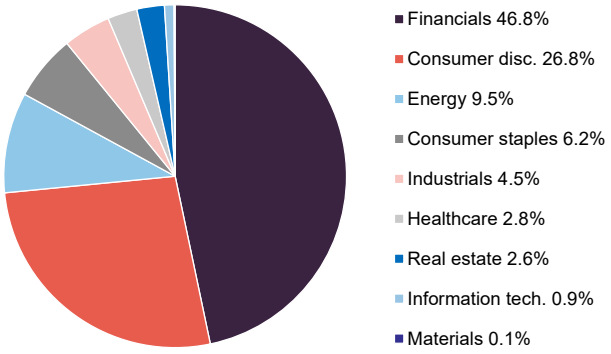
Figure 2: NCYF portfolio split by Fair value hierarchy at 31 December 2025[1]



Source: CQS New City High Yield Fund, Marten & Co Note: Level 1 investments quoted in an active market; Level 2 investments have fair values based directly on observable current market prices or indirectly being derived from market prices; Level 3 investments have fair values determined using a valuation technique based on assumptions that are not supported by observable current market prices or based on observable market data.

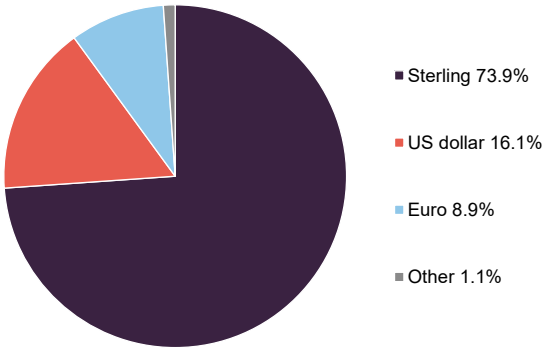
Exposure to communication services remains, but the manager stresses the need for careful selection due to the sector's high debt, large investment needs, fast-changing technology, and regulatory risks.

Figure 3: NCYF portfolio split by sector at 31 December 2025



Source: CQS New City High Yield Fund, Marten & Co

Figure 4: NCYF portfolio split by currency at 30 April 2026



Source: CQS New City High Yield Fund, Marten & Co

The charts show the portfolio is mainly in fixed income, with most holdings traded on active markets or valued using clear market prices. About 7% is traded over the counter, making it less liquid even in normal times.

The portfolio is spread across sectors but is heavily weighted towards financials, reflecting the manager's positive outlook on certain banks and insurers. It is mostly sterling-denominated at 74%, with 16% in US dollars, and all holdings are in developed market currencies.

NCYF's investments are mainly in developed countries.

Top 10 holdings

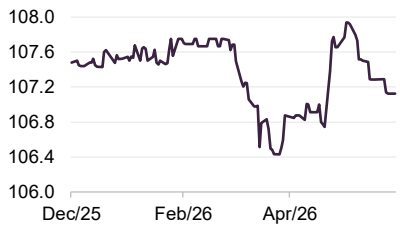
Figure 5 lists NCYF's top 10 holdings as of 30 April 2026 and highlights changes over the past year. The manager's long-term, low-turnover strategy means most issuers remain familiar to regular followers, with little change in the largest holdings' concentration. We cover key developments in the following pages. For more detail on other top 10 names, please see our previous notes.

Figure 5: Top 10 holdings as at 30 April 2026

Holding/issue	Sector	Portfolio weight 30 April 2026 (%)	Portfolio weight 30 April 2025 (%)[1]	Percentage point change
Shawbrook Group 22-08/06/2171 FRN	Banks	4.7	5.1	(0.4)
Stonegate Pub 10.75% 24-31/07/2029	Restaurants & bars	4.5	3.3	1.2
TVL Finance 10.25% 23-28/04/2028	Hotels	4.1	3.9	0.2
RL Finance No6 23-25/11/2171 FRN	Insurance	3.9	4.2	(0.3)
Sherwood Financing 9.625% 24-15/12/2029	Asset managers	3.8	1.2	2.6
Bellis Acquisition 8.125% 24-14/05/2030	Grocery retail	3.2	1.2	2.0
Cidron Aida Finco 9.125% 25-27/10/2031	Pharmaceutical	3.2	-	3.2
Barclays Plc 22-15/12/2170 FRN	Banks	2.9	3.3	(0.4
Wheel Bidco 9.875% 21-15/09/2029	Restaurants & bars	2.9	-	2.9
888 Acquisitions 10.75% 24-15/05/203	Gambling & Casinos	2.7	-	2.7
Total of top five		20.8	21.9	(1.1)
Total of top 10		35.7	38.2	(2.5)

Source: CQS New City High Yield Fund, Marten & Co. Note 1) It should be noted that the prior year comparison may use the equivalent security from the same issuer where a security has been replaced – perhaps because it has matured or been called. This is in contrast to equities which, at least in theory, have indefinite lives.

Figure 6: Shawbrook Group 2171 bond price



Source: Bloomberg

Shawbrook Group 22-08/06/2171 FRN – additional Tier 1 capital

Shawbrook Group (shawbrook.co.uk) is a UK specialist bank focused on SME and consumer lending, such as specialist mortgages, business finance, asset finance and savings. NCYF has held Shawbrook bonds for several years, trusting the bank's focused lending, strong capital position and management.

The current holding is a sterling Additional Tier 1 security, a deeply subordinated bank-capital instrument rather than a standard senior bond. It is effectively perpetual, with Shawbrook able to call it at certain dates with regulatory approval, but not required to redeem it. In return for taking on higher risk, including the chance of coupon cancellation in stress scenarios, investors receive a high coupon, currently just over 12%.

Figure 7: Stonegate Pub 10.75% 2029 bond price

Source: Bloomberg

Stonegate Pub 10.75% 24-31/07/2029 – significant asset backing

Stonegate Group (stonegategroup.co.uk) is the UK's largest pub company, with over 4,500 pubs, bars and venues, including brands like Slug & Lettuce and Be At One, as well as a large leased and tenanted estate.

Stonegate bonds are a long-standing part of NCYF's portfolio. The manager values the group's large property portfolio for asset backing and believes its scale positions it well for sector consolidation. The current holding is a sterling senior secured bond from Stonegate's 2024 refinancing, which included a £250m equity injection from private equity owner TDR Capital.

Stonegate faces risks from wage inflation, energy and food costs, business rates, changing consumer habits and high debt. However, NCYF's manager believes strong management and the bond's yield, senior secured status and asset backing more than offset these risks.

TVL Finance 10.25% 23-28/04/2028 – benefits from scale in the budget hotel segment

Figure 8: TVL Finance 10.25% 2028 bond price

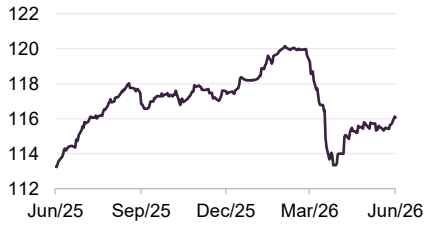
Source: Bloomberg

TVL Finance is the financing arm for Travelodge (travelodge.co.uk), one of the UK's largest budget hotel chains with locations in the UK, Ireland, and Spain. The company benefits from a strong brand, scale in the budget sector, and exposure to both leisure and business travellers. Its ongoing hotel upgrade programme had improved over two-thirds of its rooms by the end of 2025, and modest international growth, including 21 new hotels in 2025, should support performance.

The investment is a sterling senior secured bond with a 10.25% coupon, maturing in 2028. NCYF's manager values the high income, secured status, and exposure to a well-known operator in the budget hotel market. The shorter maturity brings some refinancing risk, but Travelodge's debt is fairly spread out, with £415m of senior secured notes due April 2028, €250m of floating-rate notes due June 2030, and a £50m revolving credit facility maturing in October 2027.

RL Finance No6 23-25/11/2171 FRN – Tier 1 capital

Figure 9: RL Finance FRN bond price



Source: Bloomberg

RL Finance Bonds No.6 is a financing vehicle for The Royal London Mutual Insurance Society, one of the UK's largest mutual life and pensions groups. This sterling Restricted Tier 1 bond is a deeply subordinated, perpetual instrument, not a standard corporate bond. Royal London can choose to call the bond on set dates with regulatory approval, but is not required to redeem it. The bond supports Royal London's Solvency II capital position and is designed to absorb losses if needed. For NCYF, it offers high income from a large, established and well-capitalised UK mutual insurer with defensive operations. However, it carries extra complexity and risk as subordinated debt, which is meant to absorb losses during financial stress.

Sherwood Financing 9.625% 24-15/12/2029

Figure 10: Sherwood Fin. 9.625% 2029 bond price

Source: Bloomberg

This sterling senior secured high-yield bond is issued by Sherwood Financing Plc, part of Sherwood Parentco/Arrow Global. It sits alongside €1.065bn of floating-rate senior secured notes and €300m of 7.625% fixed-rate senior secured notes, both due 2029.

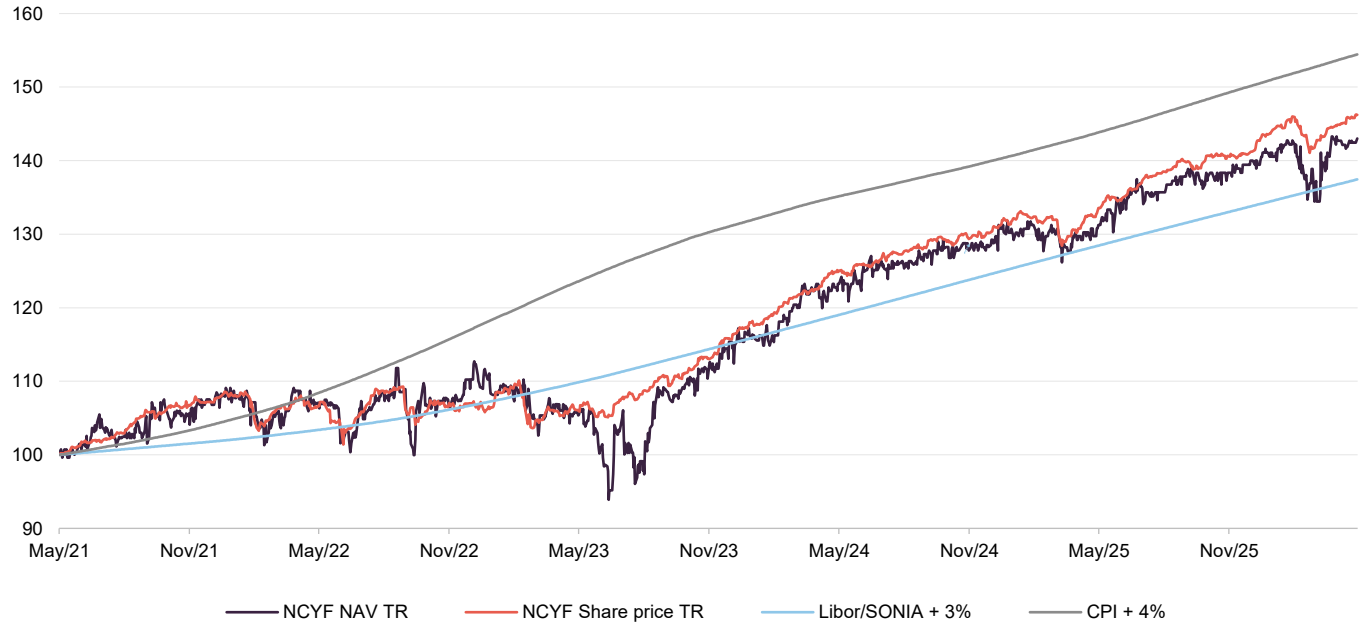
Arrow Global is a major European alternative asset manager and credit investor backed by TDR Capital. It focuses on credit and real estate, including both performing and non-performing loan portfolios. Its capital-light, fee-based model can deliver strong returns but is sensitive to funding costs, collections, asset values, economic conditions and investor demand for private credit.

The bond is rated single B by Fitch, which affirmed this on 22 May 2026 with a stable outlook for Sherwood Parentco Limited, reflecting the group's 2029 debt, including the euro floating-rate and fixed-rate notes, and the sterling 9.625% notes.

Performance

As shown in Figure 11, NCYF's NAV and share price total returns outperformed the chosen benchmarks, LIBOR/SONIA +3% and CPI +4%, until inflation returned and interest rates increased. This shift became clear after Russia's invasion of Ukraine and the 2022 UK "mini-budget", both of which negatively affected sentiment towards bonds and income assets.

Figure 11: NCYF's NAV and share price total return versus Libor/SONIA + 3% and CPI +4%, rebased to 100 over five years to 31 May 2026



Source: Bloomberg, Marten & Co

Performance started to improve from July 2023 as markets rose on signs of lower US inflation and hopes that major economies could avoid a severe recession. This period also shows how bonds tend to move back towards their original value as they approach maturity. Shorter disruptions were seen around Trump's tariff announcements in April 2025 and the recent conflict in Iran.

Over five years, NCYF's NAV and share price total returns are ahead of LIBOR/SONIA +3%, recovering from earlier underperformance. They have also kept up with CPI +4%, though they have not fully made up losses from 2022 and early 2023. A more stable market should help NCYF close this gap and possibly surpass this tougher benchmark.

While all of NCYF's peers focus on fixed income, most do not target high income specifically. As Figure 12 shows, NCYF's NAV has beaten the peer group average over most periods up to five years. The share price has also slightly outperformed the peer group average over 10 years.

Figure 12: Cumulative total return performance over periods ending 31 May 2026

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	10 years (%)
NCYF NAV	1.0	0.1	4.0	9.5	38.1	46.2	64.0
NCYF share price	(0.2)	0.2	3.4	8.9	35.6	43.0	99.8
Libor/SONIA + 3%[1]	0.6	1.7	3.4	7.0	25.1	37.5	63.2
CPI + 4%	0.6	1.7	3.5	7.4	25.0	54.5	104.0
Peer group average NAV	0.8	0.8	2.7	7.5	37.4	37.6	88.8
Peer group average share price	0.9	(0.4)	1.8	6.4	40.8	39.2	99.5

Source: Bloomberg, Marten & Co. Note: 1) Switch from Libor to Sonia occurs at 28 March 2024.

Peer group

Please click here to visit QuotedData.com for a live comparison of the Debt – Loans and bonds peer group.

NCYF is part of the AIC's debt – loans & bonds sector, which now has five members as several funds have closed or merged in recent years. These funds usually invest over 80% in general debt instruments like secured loans, bonds, and syndicated lending, and have policies focused on these assets.

NCYF stands out from its peers by focusing more on generating high income. This higher-yield strategy meant NCYF was hit harder than its peers during the COVID market sell-off in March 2020, which still impacts its 10-year performance figures, although it has since recovered strongly.

Despite tough bond market conditions in 2022 and early 2023, NCYF usually ranks in the top half of its peer group. Its three-month performance was likely impacted by increased inflation expectations after the war in Iran began.

Figure 13: Peer group cumulative NAV total return performance to 31 May 2026

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	10 years (%)
NCYF	1.0	0.1	4.0	9.5	38.1	46.2	64.0
CVC Income & Growth GBP	0.6	0.4	2.6	8.1	31.4	21.8	74.5
Invesco Bond Income Plus	0.7	2.0	2.3	5.9	42.9	53.0	105.9
M&G Credit Income	0.0	0.6	1.7	4.9	24.4	28.1	N/A
TwentyFour Select Monthly Income	1.5	0.8	2.8	9.1	50.3	38.9	110.8
NCYF rank	2/5	5/5	1/5	1/5	3/5	2/5	4/4
Sector arithmetic avg.	0.8	0.8	2.7	7.5	37.4	37.6	88.8
Sector arithmetic avg. exc. NCYF	0.7	0.9	2.3	7.0	37.3	35.4	97.1

Source: Bloomberg, Marten & Co

Figure 14: Peer group comparison – size, fees, discount, yield and gearing as at 12 June 2026

	Market cap (£m)	St. dev. of NAV returns over 1 year	Ongoing charges (%)	Perf. fee	Premium/ (discount) (%)	Dividend yield (%)	Gross gearing (%)[1]	Net gearing (%)[1]
NCYF	349	7.38	1.17	No	5.2	8.9	12.5	11.8
CVC Income & Growth GBP	79	4.51	1.66	No	(0.8)	6.84	2.0	2.0
Invesco Bond Income Plus	224	10.11	1.66	No	0.5	8.36	12.0	22.3
M&G Credit Income	480	3.73	0.88	No	1.6	7.08	Nil	(1.8)
TwentyFour Select Monthly Income	189	5.63	1.18	No	0.7	8.28	Nil	(0.8)
NCYF rank	2/5	3/5	3/5		1/5	1/5	5/5	4/5
Sector arithmetic avg.	270	7.50	1.28		1.4	8.0	5.3	6.7
Sector arithmetic avg. exc. NCYF	255	7.52	1.30		0.6	7.8	3.5	5.4

Source: The AIC, Bloomberg, Company factsheets, Marten & Co. Notes: 1) Gross and net gearing figures as at 30 April 2026, with the exception of the following: CVC Income & Growth (as at 31 March 2026 – sourced from its most recent factsheet), M&G Credit Income (as at 31 March 2026 – sourced from its most recent factsheet), and TwentyFour Select Monthly Income (as at 30 April 2026 – sourced from its most recent factsheet). In each case this is the most recently publicly available information. 3) Market cap and dividend yield are ranked in increasing size order (the larger the market cap or dividend yield, the higher the ranking). All other rankings are in decreasing size order (the lower the standard deviation of returns, the lower the ongoing charges ratio, the lower the value of the premium/(discount), the lower the gross and net gearing, all correspond to a higher ranking).

NAV total returns have generally been above the peer group average, suggesting the high yield has not reduced overall returns.

NCYF is one of the largest funds in its peer group, ranking second by market value even after combining the two CVC Credit Partners European Opportunities share classes. Its high premium – currently the highest in Figure 14 and usually among the top two – likely reflects its consistently strong yield.

NCYF's ongoing charges are slightly below the sector average, thanks to its larger size. Only M&G Credit Income, the biggest fund in the group, has a lower ongoing charge ratio. If NCYF keeps growing, its charges should continue to fall. Like most peers, NCYF does not charge a performance fee.

NCYF has the second-highest net gearing in the sector, but its stable strategies mean it is well placed to use this borrowing. If interest rates fall and capital values rise, NCYF could benefit from its higher market exposure, though it would be more affected if the opposite happens.

Interestingly, NCYF's NAV return volatility is below the sector average. This suggests its higher yield has not come with extra volatility.

Quarterly dividend payments

The board intends to pay an attractive level of dividend income and the total annual dividend has increased every year since launch.

The board avoids issuing stock close to ex-dividend dates to protect NCYF's revenue reserve.

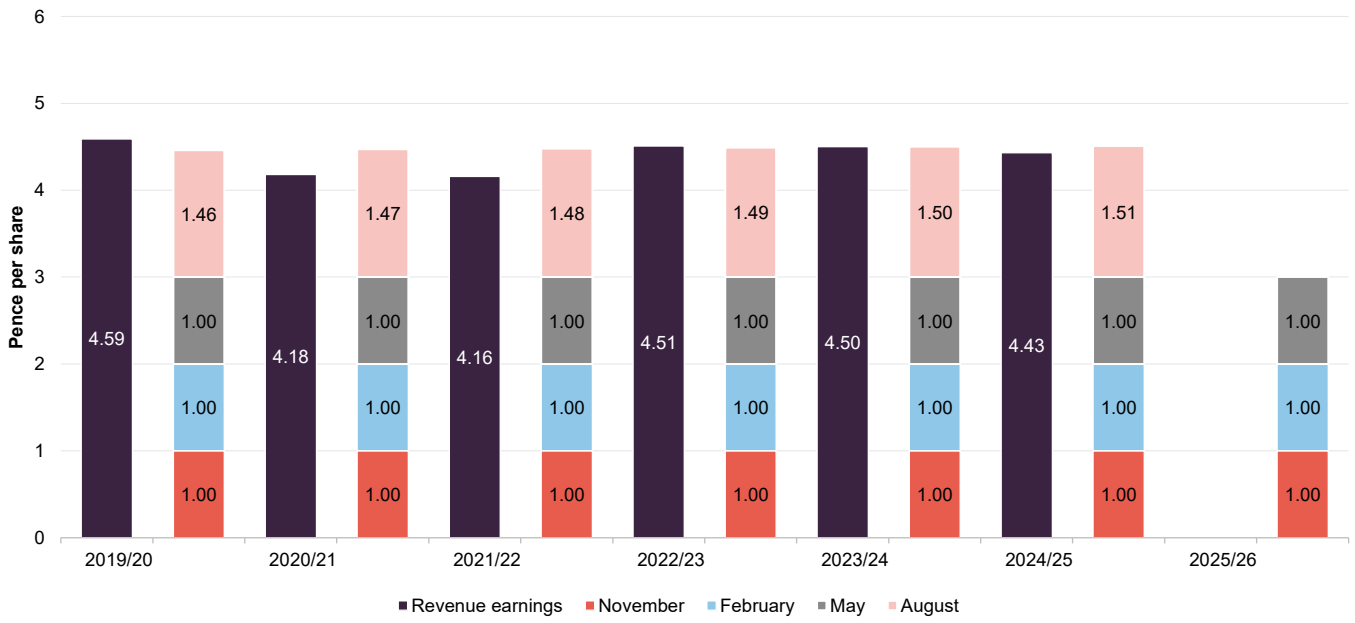
NCYF aims to pay an attractive quarterly dividend, with all dividends paid as interims, subject to market conditions, performance and its financial position. The first interim is paid in November, followed by payments in February, May and August. Typically, the first-quarter dividend rate is kept for the second and third interims, with a larger fourth-quarter payment. While not a formal policy, NCYF's total annual dividend has risen every year since launch.

Over half a year's worth of dividends in reserve

Over time, NCYF's revenue earnings have usually been higher than dividends paid, allowing it to build a revenue reserve. The board has used this reserve to cover shortfalls in FY2021, FY2022, and slightly in FY2025. At 31 December 2025, the reserve was 2.26p per share, covering 58% of the FY2025 dividend. The board avoids issuing shares near ex-dividend dates to prevent diluting the reserve.

In its interim results for the half year to 31 December 2025, the board said it expects to keep the same dividend payment pattern as last year and aims to maintain or slightly increase the total dividend for the year.

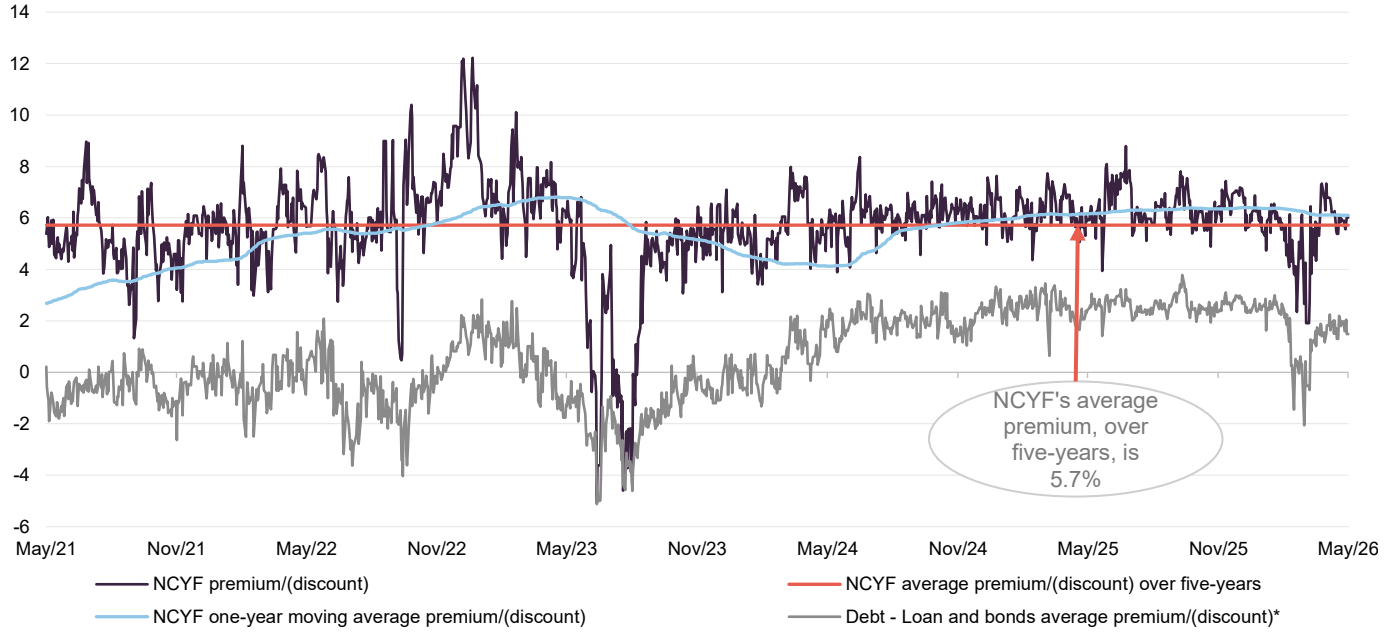
Figure 15: NCYF revenue income and dividend by financial year (ended 30 June)



Source: CQS New City High Yield Fund, Marten & Co

Premium/(discount)

Figure 16: NCYF premium/(discount) over five years to end May 2026



Source: Bloomberg, Marten & Co *Note: the peer group comprises members of the AIC's Debt – Loans & Bonds sector.

As Figure 16 shows, NCYF has traded predominantly at a premium over the past five years, typically within a 0%–10% range and averaging 5.7%.

Demand for the strategy has led to continued share issuance. In the 12 months to 31 May 2026, NCYF issued 76m shares, increasing its share capital by 12.5%. This is beneficial for existing shareholders, as NCYF typically issues new shares only when the premium to NAV is above 5%–6%. This measured approach helps the fund grow without diluting income, as new shares must generate enough income before the next ex-dividend date. NCYF continues to trade at a significant premium compared to the average for the debt, loans, and bonds sector.

Structure

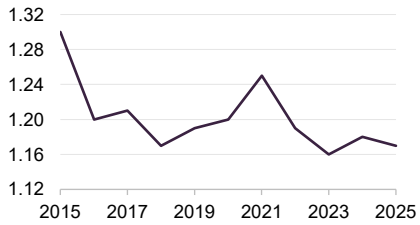
Fees and costs

NCYF has a tiered management fee.

The manager charges an annual fee of 0.8% of total assets up to £200m, 0.7% between £200m and £300m, and 0.6% above £300m, calculated after deducting current liabilities except bank borrowings. This fee is paid monthly in arrears, with no performance fee, and the agreement can be ended by either party with 12 months' notice.

BNP Paribas Securities Services S.C.A. handles company secretarial, administrative, custodian, banking and depositary services. For the year ended 30 June 2025, secretarial and administration fees were £244,000, up from £214,000 in 2024. Bank and custody fees were £69,000, compared to £66,000, and depositary fees remained at £45,000.

Figure 17: NCYF Ongoing charges ratio (%)[1]



Source: CQS New City High Yield Note: 1) For financial years ended 30 June.

Allocation of fees and costs

NCYF splits its investment management fees 40% to capital and 60% to revenue. Its ongoing charges ratio was 1.17% for the year to 30 June 2025, slightly down from 1.18% in 2024 but just above 1.16% in 2023.

Over the past decade, ongoing charges have generally fallen, helped by growth in net assets from steady share issuance and strong demand. Exceptions were in 2015, during the Greek debt crisis, and during COVID, when higher bond yields reduced capital values.

Further share issuance is likely to keep ongoing charges down, and recent interest rate falls have supported capital values. However, rising inflation and the risk of higher rates could put pressure on asset values in the short term. Overall, NCYF remains well placed for a lower ongoing charges ratio in the medium term.

Capital structure and life

Simple capital structure

NCYF has one class of ordinary share in issue.

The board has set a borrowing limit equal to 25% of NCYF's net assets. NCYF has a £50m loan facility with BNP Paribas, London Branch.

NCYF has a straightforward capital structure, with one class of ordinary shares listed on the premium segment of the London Stock Exchange. As of 16 June 2026, there will be 690,451,858 shares in issue and none held in treasury. Retail investors make up a large part of the share register, with platforms holding over 60%.

NCYF can borrow, with the board regularly reviewing limits to keep them suitable. As of 30 June 2025, the maximum allowed gearing was 25% of net assets. The company has a £50m loan facility with BNP Paribas, London, at a 1.40% margin over the daily risk-free rate. This facility expires on 18 December 2026 and charges a 0.45% fee on unused amounts. As at 30 April 2026, NCYF's gearing was 12.6%. The loan includes covenants on minimum NAV, loan-to-value, debt cover, and limits on extra borrowing, all of which NCYF has easily met.

Unlimited life with an annual continuation vote

NCYF does not have a set end date, but shareholders vote each year on whether it should continue. If the vote fails, the board will propose plans to either close, restructure, or reorganise the company.

Financial calendar

NCYF's financial year ends on 30 June. Annual results are usually released in October, with interim results in March. The AGM is held in November. Dividends are paid quarterly in November, February, May, and August.

Board

NCYF's board has five independent non-executive directors, with no outside shared directorships. Directors' fees are capped at £250,000 a year, and all directors face annual re-election.

Director's average length of service is 5.6 years.

The board's average tenure is 5.6 years, but three directors have served over eight years. Board policy limits service to nine years, except in special cases, and a succession plan is in place to manage upcoming changes. With several directors nearing the limit, board refreshment and diversity are priorities for the nomination committee.

Currently, the board has a 60/40 gender split, with a female chair and men in the next two senior roles. All directors are white British or white other, so the board recognises it needs to improve ethnic diversity and will address this in future recruitment.

All directors hold personal investments in NCYF, which helps align their interests with shareholders. The chair's holding is worth more than two years of her fees. Over the past year, three directors bought shares: Andrew Dann (25,000 at 51.892p on 27 June 2025), Caroline Hitch (50,000 at 50.415p on 8 April 2026), and Joanne Dentskevich (39,180 at 50.499p on 21 May 2026). No directors sold shares during this period.

Figure 18: Board member – length of service and shareholdings

Director	Position	Date of appointment	Length of service (years)	Annual fee (£)[1]	Share-holding [2]	Years of fee invested[3]
Caroline Hitch	Chair	16 March 2018	8.3	50,000	261,500	2.7
Andrew Dann	Chair of the audit and risk committee	1 February 2025	1.4	44,000	25,000	0.3
Ian Cadby	Senior independent director, chair of the nomination committee and chair of the remuneration committee	18 January 2017	9.4	37,500	25,000	0.3
John Newlands	Chair of the management engagement committee	5 October 2017	8.7	37,500	10,000	0.1
Joanna Dentskevich	Director	1 February 2026	0.4	37,500	39,180	0.5
Average (service length, annual fee, shareholding, years of fee invested)			5.6	41,300	72,136	0.8

Source: CQS New City High Yield, Marten & Co Notes: 1) For NCYF's financial year ended 30 June 2026. 2) Shareholdings as per most recent company announcements as at 15 June 2026. 3) Years of fee invested based on NCYF's ordinary share price of 50.8p as at 15 June 2026.

Caroline Hitch (chair)

Caroline has worked in financial services since the early 1980s, including 24 years with HSBC Group in London, Jersey, Monaco and Hong Kong. Her roles focused on multi-asset and institutional global fixed income portfolios, with a particular interest in transparency and governance, and included a period as head of wealth portfolio management at HSBC Global Asset Management (UK) Ltd. Prior to HSBC, she worked at James Capel and Standard Chartered. Caroline is also a director of Schroder Asian Total Return Investment Company Plc and Standard Life Equity Income Trust Plc, and holds a degree in economics from the University of Cambridge.

Andrew Dann (chair of the risk and audit committee)

Andrew has more than 40 years' experience advising local and international financial services clients, including regulated funds, fiduciary businesses and investment management structures. He spent almost 38 years as managing partner of Ernst & Young Channel Islands before becoming chairman. He has been a Fellow of the Institute of Chartered Accountants in England and Wales since 1987, and is a member of both the Institute of Directors and the Association of Investment Companies' Channel Islands Committee.

Ian Cadby (senior independent director, chair of the nomination committee and chair of the remuneration committee)

Ian has more than 27 years' experience as a board executive and investment manager in the hedge fund and derivatives trading industry, across Asia, the US, the UK and Jersey. He also has extensive experience in board strategy, corporate governance and risk management. He was formerly CEO of Ermitage Ltd and has held senior roles at Cadby Wauton, Regent Pacific and Citibank. A Jersey resident, Ian is founder and group CEO of fintech business Sequential Ermitage Limited and co-founder and CEO of its wholly-owned subsidiary, Tiller Investments Limited. Ian holds a Combined Science degree from Coventry University and has completed the Advanced Management Programme in Business/Finance at Harvard Business School. He is also a director of Aberdeen Asian Income Fund Limited.

John Newlands (chair of the management engagement committee)

Following a 26-year career in the Royal Navy, John moved into the City in 1995. He was most recently head of investment companies research at Brewin Dolphin from 2007 until his retirement in 2017, having previously held roles at Greig Middleton and Williams de Broë. He also founded Newlands Funds Research in 2003 and was a member of the Association of Investment Companies' Statistics Committee from 2000 to 2017. John has an MBA from Edinburgh University Business School and is a Chartered Engineer, having gained a degree in Electrical and Electronic Engineering from the University of Brighton. He is a member of Durham Cathedral's investment committee and has written four books on financial history, the latest covering Dunedin Income Growth Investment Trust.

Joanna Dentskevich (director)

Joanna has more than 35 years' experience in risk, finance and investment banking, gained across global banks, alternative investments and the offshore funds industry. She was previously a director at Morgan Stanley, where she headed its customer valuations group, director of risk at Deutsche Bank, and chief risk officer of London-based hedge fund Allometry Capital. She has also served as a non-executive director of GCP Asset Backed Income Fund Ltd and EJF Investments Ltd. Joanna holds a BSc (Hons) in Maths and Accounting from Oxford Brookes University.

Previous publications

Figure 19: QuotedData's previously published notes on NCYF

Title	Note type	
"Conservative and boring"	Initiation	28 March 2018
Escalators do not go to the sky!	Update	13 November 2018
Same as it ever was…	Annual overview	29 July 2019
Sitting pretty	Update	30 June 2020
A short-term opportunity?	Annual overview	15 April 2020
Interest rate rises maybe too little, too late	Update	17 May 2022
Riding the wave of shifting interest rates	Annual overview	19 June 2024

Source: Marten & Co

SWOT analysis

Figure 20: SWOT analysis for NCYF

Strengths	Weaknesses
NCYF offers a relatively high dividend yield compared with many traditional equity income and investment-grade bond strategies. The portfolio is diversified across issuers, sectors and geographies, reducing dependence on any single borrower or industry, helping to mitigate idiosyncratic default risk. The manager has long experience in high-yield and special situations credit markets. A well-resourced team is an advantage when selecting issuers and monitoring credits in a market where credits are illiquid and frequently held to maturity. NCYF's closed-end structure allows it to take advantage of periods of volatility and can create attractive entry points in discounted bonds or stressed credits, allowing the manager to lock in higher yields and potential capital upside.	High-yield issuers inherently carry greater credit risk and higher probability of default than investment-grade borrowers, particularly during economic slowdowns. However, the manager is well positioned to take advantage of mispricings when these occur. The underlying credit and therefore NCYF's NAV can be affected by the prevailing economic conditions. For example, recessionary environments can widen spreads and pressure valuations, although the reverse is also true. NCYF employs gearing to enhance returns, and this has added value over the longer term. However, it can also magnify losses during periods of credit market weakness – the reverse is also true – although the manager does not use gearing rigidly and will ease it down when he believes the outlook is softening. The underlying asset class tends to be illiquid and can become more so during stressed markets, leading to wider bid-offer spreads and valuation volatility.
Opportunities	**Threats**
Rising base rates widen credit spreads and increase yields across credit markets, potentially allowing the managers to access stronger long-term income streams on new/reinvestment. Periods of geopolitical stress, tariff uncertainty or recession fears increase the potential for mispriced credits that the manager can exploit. Discounted bonds of fundamentally sound issuers have the potential to recover strongly if refinancing conditions improve or if issuers are successful in being able to deleverage (say moving them from high yield to investment grade). Economic stabilisation in Europe and the UK could support improved corporate fundamentals among selected issuers, leading to spread compression and NAV upside. If inflation moderates and central banks eventually reduce rates, high-yield bonds could benefit from both income carry and capital appreciation.	Weak growth combined with persistent inflation could increase defaults while keeping financing costs elevated — a difficult environment for leveraged borrowers. Persistently high policy rates increase refinancing pressure on lower-rated issuers and may suppress bond prices. A deterioration in corporate earnings, consumer demand or financing conditions could lead to increased restructurings and credit losses. Geopolitical instability – for example, Middle East conflict, trade wars, tariff escalation and energy market disruption – could widen credit spreads and reduce investor risk appetite. High-yield markets can experience sudden liquidity withdrawals during stress periods, leading to sharp price declines and NAV volatility. Growing scrutiny of leveraged finance, fossil fuel exposure and ESG considerations may reduce investor demand for certain parts of the high-yield universe.

Source: Marten& Co

Bull vs. bear case

Figure 21: Bull vs. bear case for NCYF

Aspect	Bull case	Bear case
Performance	Whilst there is the prospect of capital growth, investors should expect the majority of their returns to be in the form of income. Although NCYF invests in higher-yield credits, which by definition have higher risk attached than investing in 'investment grade bonds', these offer a yield premium, which supports a higher yield for NCYF. NCYF's manager is backed by a deep resource allowing detailed credit analysis – even applying their own internal ratings to otherwise unrated bonds (which also attract a yield premium). Idiosyncratic risk is well spread	Rising interest rates, on the back of rising inflation expectations (which are currently on the increase fuelled by energy price rises), will cause the capital value of fixed rate bonds to fall within the portfolio. This has the effect of depressing the NAV, albeit amplifying the portfolio's yield. However, provided the credits continue to pay interest, total income is unaffected and, as these assets tend to be held to maturity, or when called (typically at a premium due to early redemption clauses), these bonds will pull back to par as they mature, reversing the previous NAV fall. The reverse is also true.
Dividends	NCYF focuses on paying a high level of income quarterly. In selecting credits, emphasis is given to protecting capital, which in turn supports future income generation. Reflecting this, NCYF's dividend has grown every year since launch. NCYF has over half a year's worth of revenue reserves that it can use to smooth dividends where there is a revenue shortfall. NCYF's board has said it expects to maintain or slightly increase the total level of dividends for the year ending 30 June 2026 The board also avoids issuing stock close to ex-dividend dates to protect the revenue reserve and has said that it expects to maintain or slightly increase the total level of dividends for the current year.	A prolonged lower interest rate environment could make it harder for the manager to achieve the high levels of income that NCYF targets. In the near term, NCYF's board could draw on its revenue reserve, but this could be exhausted eventually. However, credit risk will likely be lower in such an environment and NCYF successfully navigated the 15-year period of low interest rates following the GFC, so the risk of this scenario looks very limited, particularly in an environment where inflation risk and interest rate risk appears to be to the upside.
Outlook	Whilst the US outlook has softened, the outlook for Europe and the UK was improving prior to the outbreak of hostilities in Iran (for example, better than expected activity in the UK, growing demand and stronger order books). Signs of a resolution in the Middle East could see these trends return to the fore.	An escalation in tensions in the Middle East could drive energy costs higher, weighing on growth and driving up interest rates and widening credit spreads. However, the manager has long been concerned about inflationary risks – seeing stagflation in the UK as a possibility – and has been positioning the portfolio accordingly. The portfolio is now positioned with a focus on the medium- to long-term impact of potential energy disruption on global growth and inflation.
Discount	NCYF overwhelmingly trades at a premium reflecting strong demand for its strategy, driven by its high yield. Shares are issued at premiums of 5-6% and above so as to cover the costs associated with new issuance and provide a small uplift in NAV per share for existing holders. Barring severe market dislocations, shareholders can generally enter and exit NCYF around these levels.	NCYF rarely trades at a discount. Interest rate rises or a market dislocation can cause its credits to derate and the resulting drop in performance can precipitate a discount. However, the effects tend to be short-lived. Reflecting its strong history of selecting good credits, losses are limited and asset values will tend to pull back to par over time.

Source: Marten & Co

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