MacKay Shields ECO Funding Designated Activity Company

Annual Report and Audited Financial Statements
For the year ended 31 December 2020

Contents

General Information

Board of Directors

Yolanda Kelly *	(Irish resident and national)
Rodney O'Rourke *	(Irish resident and national)
Howard Sullivan *	(Resigned 30 June 2020 - USA resident and national)
Young Lee*	(USA resident and national)

** Non-Independent Directors*

Investment Committee
Neel Doshi
John Forde

Administrator
BNP Paribas Securities Services S.C.A. Jersey Branch
IFC1, The Esplanade
St Helier
Jersey, JE1 4BP
Channel Islands

Registered Office
2nd Floor, Palmerston House
Fenian Street
Dublin 2
DO2 WD37
Ireland

Banker
BNP Paribas Prime Brokerage International Limited
787 7th Avenue
8th Floor
New York, NY 10019
United States of America

Investment Adviser
MacKay Shields Europe Investment
Management Limited
10 Earlsfort Terrace
Dublin 2
Ireland

Company Secretary
Cafico Secretaries Limited
Palmerston House
Denzille Lane
Dublin 2
Dublin
DO2 WD37
Ireland

Legal Adviser on Irish Law
Dechert
3 George's Dock
IFSC
Dublin
D01X 5X0
Ireland

Independent Auditor
PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
One Spencer Dock
North Wall Quay
Dublin 1
Ireland

The Directors present the Annual Report and Audited Financial Statements for MacKay Shields ECO Funding Designated Activity Company (the “Company”), for the year ended 31 December 2020. The Company changed it's name from 'CVP ECO Funding Designated Activity Company' on 15 March 2019.

Structure and principal activities

The Company was incorporated on 15 September 2017 as a Designated Activity Company ("DAC") (limited by shares) under the laws of Ireland with registration number 611657 and qualifies under Section 110 of the Irish Taxes Consolidation Act 1997 tax regime.

The Company was established as an originator vehicle under European Risk Retention rules for collateralised loan obligation ("CLO") securitisations. It may also invest in senior secured loans, either directly or indirectly through CLO warehouses. The Company is funded by the proceeds from the issuance of Profit Participating Notes ("PPNs"). PPNs to the value of Euro 10.05 million were listed on The International Stock Exchange (the "TISE").

The reporting currency of the Company is Euro ("EUR").

Investment policy

The Company’s investment objective is to deliver attractive, consistent, risk-adjusted returns to shareholders, while preserving capital through opportunistic investments in a portfolio of private and public debt instruments, primarily comprising high yield, stressed and distressed senior-most and senior-secured debt obligations of medium and large corporate issuers.

The Company also invests in CLO Debt Tranche Securities (which includes CLO Equity Tranche Securities), which are securitised pools consisting primarily of senior secured corporate loans. Other investments of the Company may include equities, and all types of debt obligations that may have varying terms with respect to security (including second lien and/or unsecured), seniority or subordination within capital structures (including mezzanine debt), purchase price, interest payments and maturity. The Company is permitted to invest in companies domiciled in the European Union ("EU"), the United Kingdom ("UK") and the United States ("US").

Business review and future development

MacKay Shields EURO CLO-2 Designated Activity Company ("EURO CLO-2") entered into a Warehouse Agreement with the Company on 24 January 2020 and subsequently, as part of the origination strategy, the CLO Notes issued by EURO CLO-2 priced on 30 July 2020. In accordance with Chapter 3, Article 6, Regulation (EU) 2017/2402 of the European Parliament and of the Council (EU risk retention regulation), the Company, as the originator, now holds the equity tranche in EURO CLO-2. On 4 March 2020 the Company made a PPN interest payment to MacKay Shields European Credit Opportunity Fund Limited ("the Fund") to the value of EUR 2,094,142. During the year, MacKay Shields EURO CLO-1 Designated Activity Company ("EURO CLO-1") paid interest totalling EUR 3,395,198 to the Company. The Company also continued to invest in PPNs issued by MacKay Shields ECO ORI-1 Designated Activity Company ("ORI-1").

COVID-19 has resulted in a negative effect on the perfomance of debt instruments within the financial services industry. The downturn in the market was most severe in March 2020, and since then, the market as a whole appears to have shown some recovery. Market value of investments held by the Company as at 31 December 2020 has fallen since 31 December 2019 due to external factors relating to COVID-19, however, has not exceeded negative 10% in any one investment. As part of the Company's investment strategy, it exited investments which were deemed high risk in relation to COVID-19.

The Directors do not anticipate any change in the structure or investment objectives of the Company.

Results and dividends

The Statement of Comprehensive Income for the financial year and the Company’s Statement of Financial Position as at 31 December 2020 are set out on pages 13 and 14 respectively.

No dividends were paid during the financial year. The Directors do not recommend payment of a dividend for the financial year ended 31 December 2020.

Principal risks and uncertainties

The Company's investment activities expose it to various types of financial risk which are associated with the financial instruments and the markets in which the Company invests. The main risks arising from the Company's financial instruments are market risk (including currency risk, interest rate risk and price risk), liquidity risk and credit risk. For a detailed description of the risk management objectives and policies, refer to Note 4 of the financial statements.

The Company is exposed to market risk in relation to the ongoing COVID-19 pandemic. The pandemic resulted in reduced performance in the market, but has shown recovery with news of available COVID-19 vaccines. The Company aimed to minimise its exposure to the risks associated with COVID-19 by exiting investments deemed high risk and susceptible to volatility.

The Company has considered the inherent risks and uncertainties surrounding Brexit and has concluded that no specific challenges will arise as a result of Brexit.

Please note that the overview provided in this annual report of the principal risks and related risks of the Company are not intended to be a comprehensive summary of all risks. Investors should refer to the Information Memorandum of the Company for a more detailed discussion of the risks inherent in investing in the Company.

Directors

The names of the Directors who were in office at any time during the financial year are set out on page 2.

Transactions involving Directors

Cafico Corporate Services Limited ("Cafico") provides corporate services to the Company at arm’s length commercial rates. Rodney O’Rourke and Yolanda Kelly are Directors of the Company and are also Directors of Cafico and in that capacity have a material interest in transactions conducted between the Company and Cafico.

There were no transactions of significance in relation to the business of the Company in which the Directors had any interest as defined in the Companies Act 2014, at any time during or subsequent to the financial year. The Directors of the Company are not entitled to separate remuneration.

Directors’ and Secretary’s interests

In accordance with Section 329 of the Companies Act 2014, the Directors and Secretary who held office on 31 December 2020 had no interest in the shares or debentures of the Company on that date or during the financial year.

Accounting records

The Directors, through the use of appropriate systems and procedures, ensure compliance with the Company’s obligations under Section 281 to 285 of the Companies Act 2014. Additionally, the Directors ensure that competent persons are responsible for the accounting records. The accounting records are kept at 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland as the Company's registered office.

Disclosures to Auditor

In accordance with Section 330 of the Companies Act 2014, the Company's Directors are not aware of any relevant audit information of which the Company's statutory auditors ("PricewaterhouseCoopers") are unaware of. The Directors have taken all necessary steps that ought to have been taken to make themselves aware of relevant audit information and ensure the auditors were made aware of this information.

The Company’s Directors have made an assessment of the Company’s ability to continue as a going concern and are satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the Company’s Directors are not aware of any material uncertainties that may cast significant doubt upon the Company’s ability to continue as a going concern. Therefore, the financial statements are prepared on the going concern basis.

Significant events during the financial year

During the financial year ended 31 December 2020, the Company made a PPN interest payment to the Fund to the value of EUR 2,094,142.

The Company acquired PPNs in ORI-1 to the value of EUR 31,899,728 during the financial year (2019: EUR 29,213,027). As at 31 December 2020, the Company had acquired PPNs in ORI-1 with a cumulative value of EUR 81,703,983 (2019: EUR 49,804,255).

During the financial year EURO CLO-1 paid interest to the Company totalling EUR 3,395,198 (2019: EUR 2,663,899)

The Company acquired PPNs in EURO CLO-2 during the financial year to the value of EUR 20,000,000 (2019: EUR nil). On 30 July 2020, EURO CLO-2 priced and the Company acquired the subordinated loan notes, with EUR 16,500,000 being held for risk retention purposes in accordance with EU Regulation. As at 31 December 2020, the Company held the entire subordinated loan notes in EURO CLO-2, with a par value of EUR 22,000,000.

Compliance policy statement

As required by Section 225(2) of the Companies Act 2014, the Directors acknowledge that they are responsible for securing the Company's compliance with the relevant obligations. The Directors have drawn up a compliance policy which refers to the arrangements and structures that are in place and which are in the Directors' opinion, designed to secure material compliance with the Company's relevant obligations. These arrangements and structures were reviewed by the Directors during the financial year. In discharging their responsibilities under Section 225, the Directors relied upon, among other things, the services provided, advice and/or representations received from third parties whom the Directors believe have the requisite knowledge and experience in order to secure material compliance with the Company's relevant obligations.

Events after the reporting period

In accordance with IAS 10 - "Events after the Reporting Period", the Company has evaluated subsequent events for recognition or disclosure through 25 March 2021, which is the date which these financial statements were available to be issued.

During the period from 31 December 2020 to the date that the financial statements were approved, the coronavirus (COVID-19) global pandemic continued to cause extensive disruptions to businesses and economic activities worldwide. The quantum of the impact of Covid-19 in the future is difficult to determine. However, the directors are closely monitoring the situation and considering the effect it may have on the valuation of the DAC portfolio in the future as the duration of Covid-19 pandemic remains unclear. The Company has determined that these events are not materially significant to warrant adjusting conditions existing as at 31 December 2020.

Audit committee statement

As permitted by Section 176(3)(b) Companies Act 2014 (as amended), the Board of Directors (the "Board") has elected not to have an audit committee. This election is for the following reasons:

- the knowledge and expertise of the Board allows them to have sufficient oversight and discharge the following responsibilities that would otherwise be carried out by an audit committee:
  - (i) the monitoring of the financial reporting process;
  - (ii) the monitoring of the effectiveness of the Company's system of internal control, internal audit and risk management;
  - (iii) the monitoring of the statutory audit of the Company's financial statements; and
  - (iv) the review and monitoring of the independence of the statutory auditors and in particular the provision of additional services to the Company;
- the quarterly board meetings and also the ad hoc meetings of the Board allows the Board to oversee the general management and conduct of all aspects of the Company's business including those outlined above; and
- the Board is and shall at all times be made up of persons each of who has the appropriate knowledge and experience to be a director of the Company, having regard to the responsibilities outlined above and any other statutory duties.

Independent auditors
Pricewaterhouse Coopers, being eligible for reappointment were duly elected as independent auditors for the Company for financial year ended 31 December 2020.

The registered address for the independent auditors:

Independent Auditor
PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
One Spencer Dock
North Wall Quay
Dublin 1

Signed for and on behalf of the Board of Directors by:

Date: 29 March 2021

MacKay Shields ECO Funding Designated Activity Company
Directors' Statement of Responsibilities
For the year ended 31 December 2020

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Irish Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and applicable law.

Under the Companies Act 2014, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Company and of its profit or loss for that financial year.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records which disclose, with reasonable accuracy at any time, the assets, liabilities, financial position and profit or loss of the Company and to enable them to ensure that the financial statements are prepared in accordance with the Companies Act 2014. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board:

Date: 29 March 2021

Independent auditors' report to the members of MacKay Shields ECO Funding Designated Activity Company

Report on the audit of the financial statements

Opinion

In our opinion, MacKay Shields ECO Funding Designated Activity Company 's financial statements:

- give a true and fair view of the company's assets, liabilities and financial position as at 31 December 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

We have audited the financial statements, included within the Annual Report and Audited Financial Statements, which comprise:

- the Statement of Financial Position as at 31 December 2020;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law.

Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Materiality

- €1,884,700 (2019: €2,085,757)
- Based on 1% of total assets.

Audit scope

- The company is a private company limited by shares and engages MacKay Shields Europe Investment Management Limited (the "Investment Adviser") to manage certain duties and responsibilities with regards to the day-to-day management of the company. The company was established as an originator vehicle for collateralised loan obligation securitisations. We tailored the scope of our audit taking into account the types of financial assets and liabilities held by the company, the involvement of the third parties referred to below, the accounting processes and controls, and the industry in which the company operates.

Key audit matters

- Valuation of financial assets at fair value through profit or loss and financial assets at amortised cost.
- Existence of financial assets at fair value through profit or loss and financial assets at amortised cost.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Valuation and existence of financial assets at fair value through profit or loss and financial assets at amortised cost Refer to the accounting policies set out in note 2, and note 3 'Financial assets and financial liabilities'. The financial assets at fair value through profit or loss and financial assets at amortised cost included in the Statement of Financial Position as at 31 December 2020 are valued in line with IFRSs as adopted by the EU, and are held in the company's name. The financial assets comprise of bank loans, a profit participation note, subordinated loan notes, and a credit default swap. We considered the valuation and existence of these financial assets to be a key audit matter as they represent the principal elements of the financial statements.	We tested the valuation of the bank loans and subordinated loan notes by independently repricing the positions using third party vendor sources. For the subordinated loan notes held at amortised cost, we reviewed the discounted cash flow model used to value the notes. We tested significant inputs to the model, including the projected future cash flows and the discount rate. We tested the valuation of the credit default swap by repricing the position using an independently obtained counterparty confirmation. We independently recalculated the value of the profit participation note in line with the profit participation note agreement. We obtained independent confirmation from the Banker, counterparty, or agent banks for the financial assets held at 31 December 2020 and reconciled the amounts confirmed to the accounting records For positions where we were unable to obtain confirmations from the Banker, counterparty, or agent banks, we performed alternative audit procedures which included obtaining supporting documentation, such as trade tickets and loan agreements, for the existence of the positions at 31 December 2020. For the profit participation note, we obtained the original agreement for the note. No material misstatements were identified as a result of the procedures we performed.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The directors control the affairs of the company and are responsible for the overall investment policy which is determined by them. The directors have delegated the investment decision making of the company to the Investment Committee. The company appointed MacKay Shields Europe Investment Management Limited as the company's Investment Adviser (the "Investment Adviser") to provide the company with certain advice and assistance in connection with the investment portfolio, and to manage certain duties and responsibilities with regards to the day to day management of the company. The Board of Directors has also delegated certain responsibilities to BNP Paribas Securities Services S.C.A. Jersey Branch (the "Administrator") and BNP Paribas Prime Brokerage International Limited (the "Banker"). The financial statements, which remain the responsibility of the directors, are prepared on their behalf by the Administrator. The company has appointed the Banker to act as depositary of the company's assets. In establishing the overall approach to our audit we assessed the risk of material misstatement taking into account the nature, likelihood and potential magnitude of any misstatement. As part of our risk assessment, we considered the company's interaction with the Administrator.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	€1,884,700 (2019: €2,085,757).
How we determined it	1% of total assets.
Rationale for benchmark applied	We have applied this benchmark because the main objective of the Company is to generate a total return on its investment portfolio, through funding received from the issuance of profit participating notes.

We agreed with the Board of Directors that we would report to them misstatements identified during our audit above €188,470 (2019: €208,575) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing the directors' considerations in relation to going concern, including 1) management's intent with regard to the company, 2) the obligations and the purpose of the company, and 3) the liquidity of the underlying investment portfolio;
- Obtaining an understanding of the key indicators that are monitored with respect to the going concern assumption and management's future plans for the company over the going concern period (being 12 months from the date of approval of the financial statements);
- Reviewing available board minutes during the period under audit and those available up to the date of this report;
- Making enquiries of management with respect to any optional redemptions of the profit participating notes of which they have been informed of;
- Considering the adequacy of the disclosures in the financial statements in respect of liquidity risk management techniques which are available to the company.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report and Audited Financial Statements other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the Companies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 require us to also report certain opinions and matters as described below:

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
- Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Statement of Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at:

https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf

This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.

Other exception reporting

Directors' remuneration and transactions

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

Olivia Hayden
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
29 March 2021

MacKay Shields ECO Funding Designated Activity Company
Statement of Comprehensive Income
For the year ended 31 December 2020

	Note	For the year ended 31 December 2020 EUR	For the year ended 31 December 2019 EUR
Income			
Bank interest income	5	1,111	13,982
Investment income on financial assets at fair value through profit or loss	5	3,450,456	5,142,818
Investment income on financial assets at amortised cost		2,037,119	-
Net loss on financial assets at fair value through profit or loss		(3,671,077)	(201,596)
Net loss on financial assets at amortised cost	3.4	(309,162)	(405,426)
Realised foreign exchange gains on financial assets at fair value through profit or loss		187,185	476,890
Net foreign exchange gain/(loss)		358,570	(435,539)
Net gain/(loss) on financial liabilities at fair value through profit or loss		138,573	(1,847,982)
Other income		343,499	342,523
Total income		**2,536,274**	**3,085,670**
Expenses			
Advisory fees	6	1,491,524	1,916,038
Administration fees	6	87,500	87,500
Legal fees		25,382	1,699
Audit fees	6	36,129	34,706
Other operating expenses	7	313,955	377,406
Total operating expenses		**1,954,490**	**2,417,349**
Operating profit		**581,784**	**668,321**
Finance costs		580,184	666,721
Net profit before tax		**1,600**	**1,600**
Taxation	12	400	400
Total comprehensive income for the period		**1,200**	**1,200**

All activities are derived from continuing operations. There was no other comprehensive income during the current financial year.

The notes on pages 17 to 43 form part of the Financial Statements.

MacKay Shields ECO Funding Designated Activity Company
Statement of Financial Position
As at 31 December 2020

	Note	31 December 2020 EUR	31 December 2019 EUR
Assets			
Financial assets at fair value through profit or loss	3.2	106,708,211	89,945,976
Financial assets at amortised cost	3.4	33,747,894	18,382,056
Other receivables	8	348,104	2,516,562
Receivable on investments sold		38,405,998	66,468,740
Prepayments	9	637	608
Margin account	14	-	587,036
Cash and cash equivalents		9,259,136	30,674,712
Total Assets		**188,469,980**	**208,575,690**
Non-Current Liabilities			
Financial liabilities at fair value through profit or loss	3	149,508,494	151,741,209
Total Non-Current Liabilities		**149,508,494**	**151,741,209**
Current Liabilities			
Payable on investments purchased		38,406,001	56,228,926
Other payables and accrued expenses	10	552,099	603,369
Total Current Liabilities		**38,958,100**	**56,832,295**
Net Assets Attributable to Shareholders		**3,386**	**2,186**
Equity attributable to shareholders			
Share capital	11	1	1
Retained earnings		3,385	2,185
Equity Attributable to Shareholders		**3,386**	**2,186**

The notes on pages 17 to 43 form part of the Financial Statements.

Signed for and on behalf of the Board of Directors by:

Date: 29 March 2021

For the year ended 31 December 2020

	Note	Share capital EUR	Retained earnings EUR	Total EUR
Balance as at 1 January 2020		1	2,185	**2,186**
Share capital	11	-	-	**-**
Total comprehensive income for the year		-	1,200	**1,200**
Balance as at 31 December 2020		**1**	**3,385**	**3,386**

For the period ended 31 December 2019

	Note	Share capital EUR	Retained earnings EUR	Total EUR
Balance as at 1 January 2019		1	985	**986**
Share capital	10	-	-	**-**
Total comprehensive income for the year		-	1,200	**1,200**
Balance as at 31 December 2019		**1**	**2,185**	**2,186**

The notes on pages 17 to 43 form part of the Financial Statements.

MacKay Shields ECO Funding Designated Activity Company
Statement of Cash Flows
For the year ended 31 December 2020

	Note	For the year ended 31 December 2020 EUR	For the year ended 31 December 2019 EUR
Cash flows from operating activities			
Total comprehensive income for the year/period		1,200	1,200
Adjustments to reconcile profit after tax to net cash flows			
Net loss on financial assets at fair value through profit or loss		3,671,077	201,596
Net (gain)/loss on financial assets at amortised cost	3.4	309,162	405,426
Realised foreign exchange gains on financial assets at fair value through profit or loss		(187,185)	(476,890)
Net foreign exchange (gain)/loss		(358,570)	435,539
Net (gain)/loss on financial liabilities at fair value through profit or loss		(138,573)	1,847,982
Interest received on profit participating notes		872,414	-
Interest received in kind		62,962	-
Changes in working capital			
Decrease/(increase) in other receivables	7	2,168,458	(528,367)
(Increase)/decrease in prepayments	8	(29)	1,478
Decrease/(increase) in margin account	13	587,036	(20,365)
(Decrease)/increase in other payables and accrued expenses	9	(51,270)	152,363
Net cash outflow used in operating activities		**6,936,682**	**2,019,962**
Cash flows from investing activities			
Purchase of financial assets at fair value through profit and loss		(380,746,340)	(434,799,001)
Purchase of financial assets at amortised cost	3.4	(15,675,000)	(18,787,482)
Disposal of financial assets at fair value through profit and loss		370,638,709	417,378,382
Net cash outflow used in investing activities		**(25,782,631)**	**(36,208,101)**
Cash flows from financing activities			
Cash flows from profit participating notes		(2,094,142)	54,990,000
Net cash inflow from financing activities		**(2,094,142)**	**54,990,000**
Net increase/(decrease) in cash and cash equivalents		**(20,940,091)**	**20,801,861**
Cash and cash equivalents at the beginning of the period		30,674,712	9,659,579
Exchange loss on cash and cash equivalents		(475,485)	213,272
Cash and cash equivalents at the end of the period		**9,259,136**	**30,674,712**

The notes on pages 17 to 43 form part of the Financial Statements.

1 General information

The Company was incorporated on 15 September 2017 as a Designated Activity Company ("DAC") (limited by shares) under the laws of Ireland. The Company's investment objective is to deliver attractive, consistent, risk-adjusted returns to shareholders, while preserving capital through opportunistic investments in a portfolio of private and public debt instruments, primarily comprising high yield, stressed and distressed senior-most and senior-secured debt obligations of medium and large corporate issuers. The Company's objective is also to act as an originator for CLOs. The Company is funded by proceeds from the issuance of PPNs.

The Company's registration number is 611657.

The Company's registered office address is 2nd Floor, Palmerston House, Fenian Street, Dublin 2.

The Board of Directors has delegated the investment decision making of the Company to the Advisory Committee which assists the Company to achieve its investment objective. The Company appointed MacKay Shields Europe Investment Management Limited as the Company's Investment Adviser (the "Investment Adviser") to provide the Company with certain advice and assistance in connection with the investment portfolio. The Advisory Committee will take advice on investment opportunities from the Company's Investment Adviser and determine the appropriate investments within investment parameters set by the Board of Directors. The Board supervises the Investment Adviser in the performance of its function.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

2.1 Statement of compliance

The Directors are responsible for the preparation of the Financial Statements of the Company, as set out in the Directors' Statement of Responsibilities on page 6. The Financial Statements have been prepared in accordance with IFRS as adopted by the EU.

2.2 Basis of preparation

The Financial Statements have been prepared on a historical-cost basis, except for financial assets and financial liabilities held at FVTPL or amortised cost. The Financial Statements are presented in EUR, which is the functional currency of the Company.

2.3 Use of estimates and judgements

The preparation of the Financial Statements in conformity with IFRS, as adopted by the EU, requires management to make judgements, estimates and assumptions that affect items reported in the Statement of Financial Position and Statement of Comprehensive Income. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Estimates

Fair value

For the fair value of all financial instruments held, the Company determines fair values using appropriate valuation techniques.

Refer to Note 2.5 for further details on the Company's valuation process on its financial instruments and how estimates are applied.

2 Summary of significant accounting policies (continued)

2.3 Use of estimates and judgements (continued)

Impairment

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the financial year ended 31 December 2020 is included in Note 2.5 and relates to the determination of impairment of investments.

Judgements

Non-consolidation of MacKay Shields ECO ORI-1 Designated Activity Company ("ORI-1")

The Company controls ORI-1 through its 100% holding of the voting rights and ownership. The Company and ORI-1 together meet the definition of an Investment Entity as defined by IFRS 10 - 'Consolidated Financial Statements' ("IFRS 10") and as an investment entity is required to measure the investment in its subsidiaries at fair value through profit and loss, to the extent that these subsidiaries also meet the definition of investment entities themselves. The financial statements therefore comprise the results of the Company only. A company has control of an investee, when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee as defined in IFRS 10.

An entity shall consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. Under the definition of an investment entity, as set out in paragraph 27 in the standard, the entity must satisfy all three of the following tests:

i) Obtains funds from one or more investors for the purpose of providing those investors with investment management services;
ii) Commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both (including having an exit strategy for investments); and
iii) Measure and evaluate the performance of substantially all of its investments on a fair value basis.

The three essential criteria met by the Company and the ORI-1 are:

i) Typically, an investment entity would have several investors who pool their funds to gain access to investment management services and investment opportunities that they might not have had access to individually. The Company and ORI-1 through MacKay Shields European Credit Opportunity Fund Limited ("Fund") obtain funds from multiple external shareholders;
ii) An investment entity should not hold its investments indefinitely. Whilst some investments held by either the Company or ORI-1 may be retained for a longer period, such investments will have a contractual maturity and hence a limited life; and
iii) The Company and ORI-1 measure and evaluate the performance of their investments on a fair value basis and believe that investor focus is on the fair value of the portfolio. This is also consistent with the basis of reporting internally to the Board of each entity which will use the fair value information as the primary measurement attribute to evaluate the performance of substantially all of their investments and to make investment decisions.

The Directors are of the opinion that the Company and ORI-1 therefore meet the criteria set out in IFRS 10.

Refer to Note 17 for further disclosures relating to the Company's interest in ORI-1.

Non-consolidation of MacKay Shields EURO CLO-1 Designated Activity Company ("EURO CLO-1") and MacKay Shields EURO CLO-2 Designated Activity Company ("EURO CLO-2") (together "EURO CLOs")

As part of the EU Retention and Transparency Requirements, the Company acts as the retention holder for EURO CLO-1 and EURO CLO-2. The Company currently holds 100% of the subordinated loan notes in EURO CLOs. Under the requirements of IFRS 10, the Company has to assess whether the relationship between itself and its investee meets the definition of a parent and subsidiary. A company has control of an investee, when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee as defined in IFRS 10.

An entity shall consider all facts and circumstances when assessing whether it is a parent. Under the definition of an investment entity, as set out in paragraph 7 in the standard, the entity must satisfy all three of the following tests:

2 Summary of significant accounting policies (continued)

2.3 Use of estimates and judgements (continued)

The three essential criteria considered by the Company in assessing control of EURO CLOs are:

i) Typically, an investor has power over the investee when the investor has existing rights that give it the current ability to direct the relevant activities that significantly affect the investee's returns. The ability to appoint the trustee and collateral manager rests with the Controlling Class, currently defined as the Class A noteholders. The Company only holds subordinated loans and would thus be unable to appoint the trustee or collateral manager. Additionally EURO CLOs have a board of directors which is separate to that of the Company;

ii) An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance. The Company is exposed to variable returns through its investment in EURO CLOs as the returns are influenced by underlying collateral.

iii) An investor would have control when it is able to use its power over the investee to affect the amount of the investor's returns. The Company holds subordinated loans and is thus not currently classified as the Controlling Class of EURO CLOs. As such the Company is unable to affect the returns it receives as an investor in EURO CLOs.

The Directors are of the opinion that the Company does not have control, as defined in IFRS 10, of

Going concern

The Company's Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the Company's Directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements are prepared on the going concern basis. Please refer to note 4 for information in relation to liquidity risks and how these are managed by the Company.

2.4 Adoption of new and revised IFRS standards

i) New standards, interpretations and amendments effective

The following have been applied for the first time from 1 January 2020 and have had an effect on the financial statements:

Revised conceptual framework for financial reporting

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments to the definition of material is not expected to have a significant impact on the Company's financial statements.

None of the other standards, interpretations and amendments effective for the first time from 1 January 2020 have had a material effect on the financial statements.

2 Summary of significant accounting policies (continued)

2.4 Adoption of new and revised IFRS standards (continued)

ii) New standards, interpretations and amendments not yet effective

The following newly issued but not yet effective standards, interpretations and amendments, which have not been applied in these financial statements, will or may have an effect on the Company's financial statements in the future:

IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

2.5 Financial assets and liabilities

i) Recognition and initial measurement

Financial assets and liabilities are recognised in the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of the instruments.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the Statement of Comprehensive Income.

ii) Classification and subsequent measurement

On initial recognition, the Company classifies financial assets as measured at amortised cost or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely for payment of principal and interest ("SPPI").

The Company designates its assets and liabilities into the categories below in accordance with IFRS 9. IFRS 9 contains three principal classification categories for financial assets and liabilities:

- Financial assets and financial liabilities recognised at fair value through other comprehensive income ("FVTOCI"): These include any financial assets and liabilities that are designated on initial recognition as measured at fair value with fair value changes in the Statement of Other Comprehensive Income.
- Financial assets and financial liabilities recognised at FVTPL: These include derivatives, CLO Warehouses, CLO debt and equity instruments and other Special Purpose Vehicles ("SPVs"). These instruments are acquired principally for the purpose of generating a profit from short-term fluctuations in price.
- Financial assets recognised at amortised cost: These include CLO subordinated loan notes held for risk retention purposes, receivables and prepayments, cash and cash equivalents and other assets.
- Financial liabilities recognised at amortised cost: These include accounts payable and accrued expenses.

2 Summary of significant accounting policies (continued)

2.5 Financial assets and liabilities (continued)

ii) Classification and subsequent measurement (continued)

Business model assessment

In making an assessment of the objective of the business model in which a financial asset is held, the Company considers all of the relevant information about how the business is managed, including:

- the documented investment strategy and the execution of this strategy in practice. This includes whether the investment strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how the Investment Adviser is compensated: e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

The Company has determined that it has two business models:

- Held-to-collect business model: this includes investments at amortised cost, cash and cash equivalents and receivables. These financial assets are held to collect.
- Other business model: this includes derivatives and other investments at FVTPL. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent sales taking place.

Assessment whether contractual cash flows are SPPI

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension features;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The subordinated notes of EURO CLOs held for risk retention purposes meet the criteria of a held-to-collect business model and cash flows that are SPPI and are therefore measured at amortised cost. The subordinated notes of the EURO CLOs that are held for sale do not meet the criteria of a held-to-collect business model and as such are measured at FVTPL.

A reconciliation of line items in the statement of financial position to the categories of financial instruments, as defined by IFRS 9, is detailed in Note 3.

2 Summary of significant accounting policies (continued)
2.5 Financial assets and liabilities (continued)
ii) Classification and subsequent measurement (continued)

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition unless the Company were to change its business model for managing financial assets. In case of a change in business model, all affected financial assets would be reclassified on the first day of the first reporting period following this change.

The Company reports its investments in two main categories:

(a) Investments at amortised cost: CLO subordinated loan notes
The Company holds investments at amortised cost which comprise of investments in the subordinated loan notes of the CLOs. The instruments are held for the purposes of collecting contractual cash flows in the form of interest payments and principal repayments under a risk-retention business model.

(b) Investments at FVTPL: derivative instruments, CLO warehouses, debt securities and subsidiaries
Investments in derivative instruments comprise credit default swaps used for credit risk management. The Company also holds the subordinated loan notes for its originated CLOs and equity holding in subsidiaries.

The Company measures its investments, with the exception of those investments falling under the held-to-collect business model, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Company recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred. There were no changes in the fair value hierarchy during the period.

iii) Valuation process
(a) Debt securities and CLO equity instruments
The Company classifies instruments as Level 1, where available, the fair value of financial assets at fair value through profit and loss is based on their quoted market bid prices at the period end date without any deduction for estimated future selling costs. The fair value prices are independently available market prices obtained from sources such as Markit and Bloomberg.

When these instruments are not measured at the quoted price in an active market they are valued using observable inputs, initially sourcing broker quotes independently and, where this data does not yield a reliable market price, utilising appropriate valuation techniques of the Investment Adviser.

To the extent that these inputs are observable, the Company classifies the fair value of these investments as Level 2. Investments in debt securities for which limited broker quotes and for which no other evidence of liquidity exists are classified as Level 3.

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

CLO subordinated loan notes held for risk retention purposes are measured at amortised cost.

2 Summary of significant accounting policies (continued)

2.5 Financial assets and liabilities (continued)

iii) Valuation process (continued)

(b) Derivative instruments

The Company holds a credit default swap with BNP Paribas which is measured at FVTPL.The fair value of the credit default swap is based on the prevailing quoted market price at the reporting date.

(c) PPN instruments

The fair value of ORI-1 as at 31 December 2020 was based on net asset value ("NAV") of the ORI-1 attributable to the PPNs.

iv) Impairment

The Company recognises loss allowances for expected credit losses ("ECLs") on financial assets measured at amortised cost. The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- financial assets that are determined to have low credit risk at the reporting date; and
- other financial assets for which credit risk (i.e. the risk of default occurring over the expected life of the asset) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Company considers a financial asset to have low credit risk when the credit rating of the counterparty is equivalent to the globally understood definition of 'investment grade'. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

2 Summary of significant accounting policies (continued)

2.5 Financial assets and liabilities (continued)

iv) Impairment (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer; and
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECLs in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

v) Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in such transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in the Statement of Comprehensive Income.

vi) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position when and only when, the Company has a legal right to offset the amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

Income and expenses are presented on a net basis for gains and losses from financial instruments and foreign exchange gains and losses.

Derivatives are shown in the Statement of Financial Position on an offsetting basis with either a liability or asset position shown in the Statement of Financial Position.

2.6 Other receivables and prepayments

Other receivables and prepayments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are initially measured at the transaction price and are subsequently measured at amortised cost, less any provision for impairment.

A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due from the relevant broker.

Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are considered material indicators that the amount due from brokers is impaired. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.7 Other payables and accruals

Trade and other payables are recognised initially at the invoiced value which is reasonable approximation of their fair value. Trade and other payables are subsequently measured at amortised cost, less any provision for impairment.

2.8 Functional and presentation currency

Items included in the Company's financial statements are measured using the primary economic environment in which the Company operates. Functional currency is the currency of the primary economic environment in which the Company operates. The majority of the Company's investments and transactions are denominated in EUR. As such, the functional and presentational currency is EUR.

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the closing rates of exchange at each financial period end. Transactions during the financial period, including purchases and sale of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction. Foreign currency gains and losses on items measured at fair value through profit or loss are included in realised foreign exchange gain on financial assets at fair value through profit or loss or net foreign exchange gains/(loss) in the Statement of Comprehensive Income.

2.9 Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash on hand and short-term deposits in banks that are readily fixed rate to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less.

Short-term investments that are not held for the purpose of meeting short-term cash commitments and restricted margin accounts are not considered as ‘cash and cash equivalents’.

2.10 Margin cash

Cash collateral provided by the Company is identified in the Statement of Financial Position as margin account. For cash collateral, if the party to whom the collateral is provided has the right by contract or custom to sell or re-pledge the collateral, the Company classifies that asset in its Statement of Financial Position separately from other assets and identifies the asset as margin account. Where the party to whom the collateral is provided does not have the right to sell or re-pledge, a disclosure of the collateral provided is made in the notes to the financial statements. There are no offsetting agreements in place.

2 Summary of significant accounting policies (continued)

2.11 Taxation

The Company is a Section 110 company as provided for in the Irish Taxes Consolidation Act, 1997. Transactions involving a Section 110 company may be structured to be tax neutral. Tax expense comprises current tax. Tax expense is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the financial year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years.

Income tax payable on profits is recognised as an expense in the period in which profits arise.

2.12 Interest income and expense

Interest income and expense are recognised in the Statement of Comprehensive Income for all interest bearing financial instruments using the effective interest method.

2.13 Operating expenses

Operating expenses are recognised in the Statement of Comprehensive Income on an accruals basis.

2.14 Transaction costs

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and security exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Transaction costs relate to the purchase and sale of investments and are recognised in operating expenses in the Statement of Comprehensive Income.

3 Financial assets and financial liabilities

	31-Dec-20 EUR	31-Dec-19 EUR
Financial assets:		
Financial assets at fair value through profit or loss:		
CLO subordinated loan notes	15,617,966	11,572,813
Debt securities	91,114,189	78,217,771
Derivatives	(23,943)	155,392
Financial assets at fair value through profit or loss	**106,708,211**	**89,945,976**
Financial assets at amortised cost	**33,747,894**	**18,382,056**
Total financial assets	**140,456,105**	**108,328,032**
Financial liabilities		
Profit participating notes	149,508,494	151,741,209
Total financial liabilities	**149,508,494**	**151,741,209**

Financial assets at fair value through profit or loss

The Company invests in debt securities, CLO debt and subordinated loan notes in line with the investment policy of the Company.

3.1 Profit participating notes

On the 26 January 2018, the Company and the Fund, the Initial Noteholder, entered into a Profit Participating Note Issuing and Purchase Agreement whereby the Initial Noteholder is required, pursuant to that agreement, to make funds available to the Company by way of the Company issuing up to EUR 10 billion through the PPNs. The proceeds from the issue of the PPNs shall be used to fund the purchase of investments by the Company and settle any outstanding liabilities.

The PPNs are unsecured limited recourse obligations of the Company issued in denominations of EUR 1,000,000. The PPNs have a term of eight years from the first issuance unless otherwise terminated prior to the end of the term, or extended for a further period, which such further extension being agreed by the Company and the Initial Noteholder. PPNs shall in any event be repayable on 25 January 2049.

The Company is entitled on any date to pay or cause to be paid from available funds (being proceeds of sale received by, or on behalf of, any interest or principal proceeds thereof paid to the Company, and any amount received by way of principal, interest and or fees) all fees, costs, expenses and tax liabilities of the Company. In addition the Company is entitled to retain annually an amount by way of retained profit equal to EUR 1,200.

3 Financial assets and financial liabilities (continued)

3.1 Profit participating notes (continued)

Interest is computed as being an amount equal to the greater of:

a) accumulated profits of the Company (including any gains or deemed gains) for each accounting period of the Company as computed under Irish law and the accounting standard adopted by the Company for Irish tax purposes (before interest calculated in accordance with the condition for such accounting period but excluding a pro rate share of the retained profit for the Company of EUR 1,200) - where the Company suffers a net accounting loss in one or more accounting periods, such losses shall be treated as reducing the accounting profits of future accounting period, or

b) 100% of the accumulated taxable profits or gains attributable to the Company (before interest for the relevant period but excluding a pro rata share of the retained profit of the Company of EUR 1,200) having properly accrued for all other income (including any gains or losses or deemed gains or deemed losses, if any) and expense items as computed under Irish taxation principles.

The Company will pay interest on each payment date only if and to the extent it has sufficient funds available. If there are insufficient available funds on a payment date to pay in full the interest accrued for the relevant interest period in respect to the PPNs, then any such interest that remains unpaid as of such date will be paid by the Company in priority to any interest subsequently accrued on the next payment date, provided there is sufficient funds available on that payment date. No default interest shall be payable by the Company in respect of the foregoing and an event of default shall not be deemed to have occurred in such circumstances.

It is to be noted that no commissions or expenses are charged to the instrument holder in respect to any interest payments made.

During the financial year, the interest paid to the initial noteholder amounted to EUR 2,094,142 (2019: EUR nil) and the interest payable outstanding at the reporting date was EUR nil (2019: EUR nil).

3.2 Fair value hierarchy

IFRS 13 'Fair Value Measurement' ("IFRS 13") requires an analysis of investments valued at fair value based on the reliability and significance of information used to measure their fair value.

The Company categorises its financial assets and liabilities according to the following fair value hierarchy detailed in IFRS 13, that reflects the significance of the inputs used in determining their fair values:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered not active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable variable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

3 Financial assets and financial liabilities (continued)

3.2 Fair value hierarchy (continued)

As at 31 December 2020	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR
Financial assets				
Financial assets at fair value through profit or loss	-	103,790,712	2,917,499	**106,708,211**
Financial liabilities				
Profit participating notes	-	149,508,494	-	**149,508,494**

As at 31 December 2019	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR
Financial assets				
Financial assets at fair value through profit or loss	-	85,377,323	4,568,653	**89,945,976**
Financial liabilities				
Profit participating notes	-	151,741,209	-	**151,741,209**

The Company also holds financial assets and liabilities measured at amortised costs such as interest receivable, receivable for investments sold, other receivables, cash and cash equivalent, payable for investments purchased, interest payable and other payables and accrued expenses. These financial assets and liabilities are categorised as level 2 in the fair value hierarchy.

The following table shows a reconciliation of all movements in the fair value hierarchy of financial assets categorised within Level 1 to 3 for the financial year ended 31 December 2020:

As at 31 December 2020	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR
Financial assets at fair value through profit or loss				
Opening valuation	-	85,377,323	4,568,653	89,945,976
Purchases during the financial year	-	362,923,415	-	362,923,415
Sale proceeds during the financial year	-	(341,121,590)	(1,436,783)	(342,558,373)
Transfers in the financial year		-	-	-
Realised loss	-	(1,060,273)	(242,554)	(1,302,827)
Unrealised (loss)/gain	-	(2,222,575)	41,497	(2,181,078)
Unrealised foreign exchange loss	-	(105,587)	(13,315)	(118,902)
Closing valuation	**-**	**103,790,712**	**2,917,499**	**106,708,211**

3 Financial assets and financial liabilities (continued)

3.2 Fair value hierarchy (continued)

As at 31 December 2019	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR
Financial assets at fair value through profit or loss				
Opening valuation	-	91,538,591.43	2,560,688.10	94,099,280
Purchases during the financial year	-	436,771,515	2,666,836	439,438,352
Sale proceeds during the financial year	-	(439,798,996)	(3,470,625)	(443,269,621)
Transfers in the financial year		(2,844,312)	2,844,312	-
Realised (loss)/gain	-	(102,340)	33,125	(69,215)
Unrealised gain/ (loss)	-	54,455	(78,998)	(24,543)
Unrealised foreign exchange (loss)/gain	-	(241,591)	13,315	(228,276)
Closing valuation	**-**	**85,377,323**	**4,568,653**	**89,945,976**

Level 3 positions included in the above table are based on single source prices.

Transfers between levels are determined based on changes to the significant inputs used in the fair value estimation. During the financial year ended 31 December 2020, there were no reclassifications of financial assets between Levels 1, 2 and 3.

Please refer to note 2.5 for valuation methodology of financial assets designated at fair value through profit or loss.

3.3 Sensitivity of Level 3 holdings to unobservable inputs

The fair value of the Company's portfolio as at 31 December 2020 was priced through a combination of marks from Markit and Bloomberg and input from broker quotes. Where the input into the pricing was only one price, they were classified as Level 3. These loan assets are not modelled on analysts' prices but are from dealers' runs, therefore, there are no unobservable inputs into the prices.

3.4 Financial assets at amortised cost

All other assets and liabilities are carried at amortised cost; their carrying values are a reasonable approximation of fair value. Cash and cash equivalents include cash in hand and deposits held with banks. Interest receivables include obligations due to the Company.

The Company is required under EU regulation, as an originator, to hold an interest in EURO CLOs to maturity for risk retention purposes. Due to the nature of the holding, the investment is measured at amortised cost. Markit provided the Company with an independent valuation for the risk retention subordinated loan notes EURO CLOs, measured at amortised cost.

Investments at amortised cost:	31-Dec-20 EUR	31-Dec-19 EUR
CLO subordinated loan notes at start of the financial year	**18,382,056**	**-**
Purchase of investments	15,675,000	18,787,482
Amortisation	(309,162)	(405,426)
Investment at amortised cost	**33,747,894**	**18,382,056**

4 Financial risk and management objectives and policies

4.1 Financial risk factors

The Company's investment activities expose it to the various types of risk that are associated with the financial instruments and markets in which it invests. The Directors of the Company are responsible for monitoring and managing the risks associated with the portfolio. The most significant risks associated with the Company are as outlined below:

4.2 Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and other market prices. Market risk is minimised through ensuring that all investment activities are undertaken in accordance with established policy limits and investment strategies. The Investment Adviser has assessed that the Company's exposure to market risk can be divided into interest rate, currency and price risk.

The Company invests in the U.S. and European credit markets via exposure to debt securities and CLO subordinated loan interests which are the main drivers of the Company's performance. As the portfolio of the Company is predominantly comprised of assets domiciled in the U.S. and Europe, the Company could be particularly exposed to any deterioration in the current U.S. and European economic climates. Financial market disruptions may have a negative effect on the valuations of the Company's investments. Adverse economic conditions may also decrease the value of any security obtained in relation to any of the Company's investments. The Board has considered the effect of Brexit on the Company and does not expect the operations of the Company to be significantly impacted as the Company is domiciled in an EU member state.

(a) Management of risk

Market risk is managed and minimised through ensuring that all investment activities are undertaken in accordance with established policy limits and investment strategies.

The Company is subject to investment limits when it holds senior secured loans directly in its portfolio. The Company also invests in CLOs with each CLO being subject to investment limits. These investment limits amongst others relate to the number of positions held by obligor, industry sector, credit rating and weighted average life and rating of the portfolio.

Market risk is managed through diversifying the portfolio within specified limits. The following diversification requirements shall apply to the Company. For the purpose of monitoring the Diversification Requirements, the assets of the Company shall be measured during the period of 18 months from initial closing date, on the basis of the greater of: the gross asset value of the Company, and the total capital commitments in the Company, and thereafter, on the basis of gross asset value. The Company will seek to manage its assets so that it will:

- hold more than 50% in senior secured corporate credit instruments;
- hold more than 40% in issuers located in the EU or in the UK;
- have exposure to any single corporate issuer of no more than 3%;
- have exposure to any single industry of no more than 25%;
- hold no more than twenty percent 20% in CLO equity (including non-MacKay Shields managed CLOs); and
- hold no more than forty percent 40% of instruments rated CCC (or equivalent from other rating agency) and below, including distressed instruments.

4 Financial risk and management objectives and policies (continued)

4.2 Market risk (continued)

(b) Sensitivity analysis

Please refer below for sensitivity analysis on the impact on the Statement of Comprehensive Income and NAV of the Company if the fair value of the investments designated at fair value through profit or loss at the period-end increased or decreased by 10%:

As at 31 December 2020

Current Value	Financial year ended 31 December 2020	Increase by 10%	Decrease by 10%
Financial assets designated at fair value through profit or loss	106,708,211	10,670,821	(10,670,821)

As at 31 December 2019

Current Value	Financial year ended 31 December 2019	Increase by 10%	Decrease by 10%
Financial assets designated at fair value through profit or loss	89,945,976	8,994,598	(8,994,598)

The Company's policy requires that the overall market position is monitored on by the Investment Adviser and is reviewed by the Board of Directors on an on-going basis. The above sensitivity was deemed as reasonable by management.

4.2.1 Interest rate risk

(a) Description of risk

Interest rate risk is the risk of increased costs or lower income arising from unexpected movements in interest rates impacting on the Company's borrowing and investment portfolio.

(b) Assessment of risk

The majority of the Company's interest rate exposure arises in the fair value of the financial assets at FVTPL which are largely debt instruments that are predominantly variable rate and fixed margin instruments.

(c) Management of risk

The Investment Adviser has no plans to hedge interest rate fluctuations on an ongoing basis because to hedge the base rate movements is not considered efficient. The Company's interest rate policy seeks to limit the impact of fluctuating interest rates by maintaining a diversified mix of fixed rate, floating rate and variable rate. The following table details the Company's direct exposure in all direct holdings to interest rate risk.

As at 31 December 2020	Interest Bearing EUR	Non-interest Bearing EUR	Total EUR
Assets			
Financial assets at FVTPL	106,708,211	-	106,708,211
Financial assets at amortised cost	33,747,894	-	33,747,894
Receivable on investments sold	-	38,405,998	38,405,998
Prepayments	-	637	637
Other receivables		348,104	348,104
Cash and cash equivalents	9,259,136	-	9,259,136
Total assets	**149,715,241**	**38,754,739**	**188,469,980**
Liabilities			
Payable on investments purchased	-	(38,406,001)	(38,406,001)
Other payables and accrued expenses	-	(552,099)	(552,099)
Profit participating notes	-	(149,508,494)	(149,508,494)
Total liabilities	**-**	**(188,466,594)**	**(188,466,594)**
Total interest sensitivity gap	**149,715,241**	**(149,711,855)**	**3,386**

4 Financial risk and management objectives and policies (continued)

4.2 Market risk (continued)

4.2.1 Interest rate risk (continued)

As at 31 December 2019	Interest Bearing EUR	Non-interest Bearing EUR	Total EUR
Assets			
Financial assets at FVTPL	89,945,976	-	89,945,976
Financial assets at amortised cost	18,382,056	-	18,382,056
Receivable on investments sold	-	66,468,740	66,468,740
Prepayments	-	608	608
Other receivables	241,833	2,274,729	2,516,562
Margin account	587,036	-	587,036
Cash and cash equivalents	30,674,712	-	30,674,712
Total assets	**139,831,613**	**68,744,077**	**208,575,690**
Liabilities			
Payable on investments purchased	-	(56,228,926)	(56,228,926)
Other payables and accrued expenses	-	(603,369)	(603,369)
Profit participating notes	-	(151,741,209)	(151,741,209)
Total liabilities	**-**	**(208,573,504)**	**(208,573,504)**
Total interest sensitivity gap	**139,831,613**	**(139,829,427)**	**2,186**

(d) Sensitivity

A 50 basis point increase or decrease is considered a reasonably foreseeable change by the Investment Adviser based on the movement in rates in 2020 (2019: 0.50%).

As at 31 December 2020	Applicable base rate change	Effect on net asset value +0.50%	-0.50%
Applicable base rate change	+/- 0.5%	748,576	(748,576)

As at 31 December 2019	Applicable base rate change	Effect on net asset value +0.50%	(0.50%)
Applicable base rate change	+/- 0.5%	699,158	(699,158)

4.2.2 Currency risk

(a) Description of risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates against the functional currency of the Company.

4 Financial risk and management objectives and policies (continued)

4.2.2 Currency risk (continued)

(b) Assessment of risk

The functional currency of the Company is EUR. The Company's assets are typically invested in securities and other investments which are denominated in other currencies. Certain investments held by the Company, and the income received by the Company with respect to such investments, may be denominated in various currencies other than EUR. Accordingly, changes in exchange rates may adversely affect the value of investments, interest and other income streams received by the Company, gains and losses realised on the sale of investments and the amount of distributions, if any, made by the Company. In addition, the Company will incur costs in converting investment principal and income from one currency to another.

(c) Management of risk

The Investment Adviser may (but is not required to) enter into hedging transactions designed to reduce such currency risks. Furthermore, the portfolio investments in which the Company invests may be subject to risks relating to changes in currency values, as described above. The Company predominantly invests in EUR and USD denominated investments. If a USD denominated portfolio investment suffers adverse consequences as a result of foreign currency exchange movements the effect on the Company would be reduced as the Company holds a USD overdraft facility. The effect of foreign currency exhange movements on the asset will be offset by the effect of foreign currency exchange movements on the liability. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political and economic developments. The Investment Adviser may try to hedge these risks by investing directly in foreign currencies, buying and selling forward foreign currency exchange contracts and buying and selling options on foreign currencies, but there can be no assurance such strategies will be effective.

The following table provides an indication of the currency exposure:

As at 31 December 2020	**USD (EUR equivalent)**	**GBP (EUR equivalent)**	**Total EUR**
Assets			
Financial assets at fair value through profit or loss	986,790	-	986,790
Receivable on investments sold	-	-	-
Margin account	-	-	-
Total assets	**986,790**	**-**	**986,790**
Payable on investments purchased	-	-	-
Cash and cash equivalents	(9,242,486)	(381)	(9,242,867)
Total liabilities	**(9,242,486)**	**(381)**	**(9,242,867)**
Total	**(8,255,696)**	**(381)**	**(8,256,077)**

4 Financial risk and management objectives and policies (continued)

4.2 Market risk (continued)

4.2.2 Currency risk (continued)

(c) Management of risk (continued)

As at 31 December 2019	**USD (EUR equivalent)**	**GBP (EUR equivalent)**	**Total EUR**
Assets			
Financial assets at fair value through profit or loss	12,009,256	-	12,009,256
Receivable on investments sold	1,677	-	1,677
Margin account	587,036	-	587,036
Total assets	**12,597,969**	**-**	**12,597,969**
Payable on investments purchased	(327,394)	-	(327,394)
Cash and cash equivalents	(15,044,828)	(17,886)	(15,062,714)
Total liabilities	**(15,372,222)**	**(17,886)**	**(15,390,108)**
Total	**(2,774,253)**	**(17,886)**	**(2,792,139)**

(d) Sensitivity analysis

The following analysis demonstrates the impact of a 10% movement in the exchange rate against the USD and the GBP on the net assets attributable to ordinary shareholders, with all other variables held constant.

As at 31 December 2020	**Change in exchange rate* increase/(decrease)**	**Effect on net assets attributable to ordinary shareholders (decrease)/increase EUR**
USD	10%/(10%)	(825,570)/825,570
GBP	10%/(10%)	(38)/38

As at 31 December 2019	**Change in exchange rate* Increase/(decrease)**	**Effect on net assets attributable to ordinary shareholders (Decrease)/increase**
USD	10%/(10%)	(277,425)/277,425
GBP	10%/(10%)	(1,789)/1,789

*10% has been assessed as a reasonably possible movement in currency rate sensitivity over the financial year ended 31 December 2020 and 31 December 2019. It is not intended to illustrate a remote, worst case or stress test scenario.

4.2.3 Price risk

(a) Description of risk

Price risk is the risk that the fair value of the financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment or its issuer or factors affecting all instruments traded in the market.

(b) Assessment of risk

The Company's portfolio may at any given time include securities or other financial instruments or obligations which are very thinly traded, for which a limited market exists or which are restricted as to their transferability under applicable securities laws. These investments may be extremely difficult to value accurately.

Further, because of overall size or concentration in particular markets of positions held by the Company, the value of its investments which can be liquidated may differ, sometimes significantly, from their valuations. Third-party pricing information may not be available for certain positions held by the Company. Investments held by the Company may trade with significant bid-ask spreads. The Company is entitled to rely, without independent investigation, upon pricing information and valuations furnished to the Company by third parties, including pricing services and valuation sources.

(c) Management of risk

The Directors monitor and review the Company's NAV production process on an ongoing basis.

4 Financial risk and management objectives and policies (continued)

4.3 Credit and counterparty risk

(a) Description of risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Board with the assistance of the Investment Adviser has in place credit risk mitigation procedures such as credit and market research analysis and establishing risk criteria and concentration risk limits in respect of counterparty risk which is reviewed on an ongoing basis.

(b) Assessment of risk

The Company's credit risk is attributable to its financial assets designated at fair value through profit or loss, cash and cash equivalents, receivable for investments sold, inter-company receivables and margin account. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

(c) Management of risk

In the opinion of the Board of Directors, the carrying amounts of financial assets best represent the maximum credit risk exposure at the Statement of Financial Position date. At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

	31-Dec-20 EUR	31-Dec-19 EUR
Financial assets at fair value through profit or loss	106,708,211	89,945,976
Financial assets at amortised cost	33,747,894	18,382,056
Interest receivable	-	241,833
Receivable on investments sold	38,405,998	66,468,740
Inter-company receivable	348,104	2,274,729
Margin account	-	587,036
Cash and cash equivalents	9,259,136	30,674,712
Total assets	**188,469,343**	**208,575,082**

The Company's Investment Manager analyses credit concentration based on the countryparty and industry of the financial assets that the company holds. The following table categorises the assets held by the Company as at 31 December 2020 and 31 December 2019 by industry classification

Moodys Industry Classification Groups	31-Dec-20 EUR	31-Dec-20 %	31-Dec-19 EUR	31-Dec-19 %
Consumer Durables	-	0.00%	2,637,510	2.43%
Construction & Building	-	0.00%	2,000,000	1.85%
Healthcare & Pharmaceuticals	2,917,500	2.08%	6,955,000	6.42%
Services: Consumer	-	0.00%	1,511,018	1.39%
Financial Services	132,562,230	94.38%	81,399,174	75.14%
Retail	-	0.00%	1,227,034	1.13%
Energy: Oil & Gas	-	0.00%	1,376,248	1.27%
Capital Equipment	-	0.00%	2,485,126	2.29%
Transportation: Cargo	-	0.00%	5,138,638	4.74%
Aerospace & Defense	986,790	0.70%	1,255,957	1.16%
Containers, Packaging & Glass	-	0.00%	1,816,074	1.68%
Wholesale	-	0.00%	526,254	0.49%
Industrials & Transportation	1,996,660	1.42%	-	0.00%
Consumer Staple Products	1,992,925	1.42%	-	0.00%
Total assets	**140,456,105**		**108,328,032**	

4 Financial risk and management objectives and policies (continued)

4.3 Credit and counterparty risk (continued)

(c) Management of risk (continued)

To mitigate credit risk the Directors maintain ongoing communications with the Investment Adviser and monitor and review credit analysis of the counterparties and their business and reputation. The Company's policy to manage this credit risk is to hold no more than forty percent (40%) of its gross asset value in instruments rated CCC by Standard & Poor's (or equivalent from another credit rating agency) and below, including distressed instruments. Bankruptcy or insolvency of the Depositary may cause the Company's rights with respect to the cash held by the Depositary to be delayed or limited.

Please see below for analysis of investments held by credit rating category:

Moody credit rating	31-Dec-20 EUR	31-Dec-19 EUR
B	0.00%	0.00%
B1	0.00%	1.85%
B2	1.42%	2.91%
B3	1.42%	9.45%
Caa1	0.00%	6.79%
Caa2	0.70%	0.00%
Caa3	0.00%	1.16%
Unrated*	37.22%	30.35%
Not Applicable**	59.23%	47.49%
Total	**100.00%**	**100.00%**

*Unrated relates to portfolio holdings which had no ratings ascribed as at 31 December 2020.
** Not applicable relates to investment in PPNs issued by ORI-1 and the CDS as at 31 December 2020.

The Company's exposure to credit risk also arises in respect to cash and cash equivalent. The Company minimises its surplus operational cash balance by the regular forecasting of cash flow requirements and liability management. The Company's cash and cash equivalents are held mainly with BNP Paribas Securities Services S.C.A, which is rated A (2019: A) based on Standard and Poor's ratings. Bankruptcy or insolvency of the Depositary will not cause the Company's rights with respect to the cash held by the Depositary to be delayed or limited.

The Company also invests in credit default swaps ("CDS") to hedge against any credit deterioration. As at 31 December 2020, the Company had purchased a CDS with a notional value of EUR 30 million (2019: EUR 30 million) with a valuation of negative EUR 23,943 (2019: EUR 155,392). The Investment Adviser considers the Company's credit exposure to trade and other receivables to be low and as such no further analysis has been presented.

Receivable for investments sold relate to amounts due from disposal of investments. The majority of the receivable amount relates to investments sold to ORI-1 and EURO CLOs as part of the origination strategy. Risk relating to unsettled transactions is considered small as ORI-1 and EURO CLOs are fully funded and able to settle their dues.

The Investment Adviser's policy is to closely monitor the creditworthiness of the Company's counterparties brokers, custodian and banks by reviewing their credit ratings, financial statements and press releases on a regular basis.

4.4 Liquidity risk

(a) Description of risk

Liquidity or funding risk is the risk that an entity will not be able to meets its financial obligations as they fall due. Funding risk is primarily concerned with cash flow and whether an entity has sufficient cash to fund its liabilities. Liquidity risk relates to an entity's assets and the ability to convert those assets into cash (or cash equivalent) at the prevailing market price. Illiquid assets may have a wide bid/offer spread and in volatile market conditions, the bid/offer spread of normally liquid assets may widen.

4.4 Liquidity risk (continued)

(b) Assessment of risk

The financial liabilities of the Company comprise PPNs, payable for investments purchased and other payables and accrued expenses. The ability of the Company to meet its obligations is dependent on the receipt of interest and principal from its portfolio of investments.

Under the terms of the PPNs, the Company is contractually obliged to ensure that its portfolio is managed in accordance with the Company’s investment objective and policy. In the event that the Company fails to comply with these contractual obligations, the investors could elect for the PPNs to become immediately due and repayable from it subject to any applicable legal, contractual and regulatory restrictions. Given the nature of the investments held by the Company there is no guarantee and indeed, it is highly unlikely that the applicable legal, contractual and regulatory restrictions would permit the Company to immediately repay the PPNs on the Company making such an election.

Consequently, in the event of a materially adverse event occurring in relation to the Company or the market generally, the ability of the Company to realise its investment and prevent the possibility of further losses could, therefore, be limited by its restricted ability to realise its investment.

(c) Management of risk

The Board of Directors and Investment Adviser closely monitors market developments relevant to the Company's investments in order to explore and evaluate all potential exit opportunities.

All PPNs issued are limited recourse. The recourse of the PPNs is limited to the proceeds available to unsecured creditors. Therefore, the associated liquidity risk of the PPNs is reduced. The Company has payables for financial instruments purchased from other parties. The Company is exposed to risk of loss to pay for the purchase of the financial instruments, in which case the Company would have to purchase the financial instruments at the prevailing market prices. The Company's liquidity risk is managed on a daily basis by the Investment Adviser in accordance with the policies and procedures in place.

Per the Fund’s governing documents, Class F investors in the Fund - which is the sole investor in the Company - have the ability to redeem in specie, on an annual basis, 33% of their proportionate indirect holding in the Company portfolio, subject to confirmation by the Fund Directors that granting such a request would not materially impact the liquidity profile of the Fund, cause any covenant breaches in the Fund, or cause the Fund to breach applicable law.

Liquidity risk is monitored on an ongoing basis by the Board and Investment Adviser so as to ensure that the Company maintains sufficient working capital in cash or near cash form so as to be able to meet the Company’s ongoing requirements to pay other payables and accrued expenses.

The table below details the Company's liabilities by relevant maturity based on the remaining period at the Statement of Financial Position date to the contractual maturity date. The amounts disclosed are contractual cash flows.

As at 31 December 2020

	Between 1 to 3 months EUR	Between 3 months and 1 year EUR	More than 1 year EUR	Total EUR
Profit participating notes	-	-	149,508,494	149,508,494
Payable on Investments purchased	38,406,001	-	-	38,406,001
Other payables and accrued expenses	552,099	-	-	552,099
	38,958,100	**-**	**149,508,494**	**188,466,594**

4 Financial risk and management objectives and policies (continued)

4.4 Liquidity risk (continued)

(c) Management of risk (continued)

As at 31 December 2019	Between 1 to 3 months EUR	Between 3 months and 1 year EUR	More than 1 year EUR	Total EUR
PPNs	-	-	151,741,209	151,741,209
Payable on Investments purchased	56,228,926	-	-	56,228,926
Other payables and accrued expenses	603,369	-	-	603,369
	56,832,295	**-**	**151,741,209**	**208,573,504**

The Company's financial assets include CLO subordinated loan notes, derivative instruments, CLO warehouse, debt securities and subsidiaries of varying liquidity levels. CLO subordinated notes held for risk retention purposes are considered to be illiquid due to their mandatory retention under EU regulation. Other financial assets are classified as illiquid when they have a liquidity level of 5. The table below represents the fair value of illiquid financial assets held by the Company.

Illiquid financial assets		**31-Dec-20 EUR**
Illiquid financial assets at fair value through profit or loss:		
Alloy Parent Limited - Facility B2	597,412	
Alloy Finco Limited - Facility B	389,379	
CLO subordinated notes	15,617,966	
		16,604,756
Illiquid financial assets at amortised cost:		
CLO subordinated notes	33,747,894	
		33,747,894
		50,352,650

Illiquid financial assets		**31-Dec-19 EUR**
Illiquid financial assets at fair value through profit or loss:		
Mehilainen	4,030,000	
Impala	2,000,000	
DIRECT CHASSISLINK, INC.	1,643,653	
CLO subordinated notes	11,572,813	
		19,246,466
Illiquid financial assets at amortised cost:		
CLO subordinated notes	18,382,056	
		18,382,056
		37,628,522

5 Interest income

	31-Dec-20 EUR	31-Dec-19 EUR
Bank interest income	1,111	13,982
Investment income	3,450,456	5,142,818
	3,451,567	**5,156,800**

Investment income relates to financial instruments held at FVTPL and amortised by the Company, and consists of two main components:

- Investment income received within the financial year; and
- Accrued investment income, calculated based on the principal, multiplied by the number of days in the period, multiplied by the interest rate

Bank interest income is income relating to interest rates applied on cash balances held or owed.

6 Fees

(a) Advisory fee

The Company has appointed MacKay Shields Europe Investment Management Limited (the "Investment Adviser") as investment adviser to provide certain investment advice and assistance in connection with the Company's investments, origination and ongoing management of the assets in which the Company invests.

Under the terms of the Investment Advisory agreement dated 26 January 2018, the investment advisory fees paid to the Investment Adviser are based on the relative participation of each class of shares in the Company. From the date of the first drawdown of the funds under the PPN Agreement, the Investment Adviser is entitled to investment advisory fees at annualised percentage rate of 1.5% of the net asset value of the Fund. Advisory fees charged during the financial year ended 31 December 2020 is EUR 1,491,524 (2019:EUR 1,916,038) and payable at financial year end was EUR 382,463 (2019: EUR 454,235).

(b) Administration fee

The Company has engaged the services of BNP Paribas Securities Services S.C.A Jersey Branch to provide administration services. The fees are charged on a fixed fee of EUR 87,500 per annum. Administration fees charged during the financial year ended 31 December 2020 is EUR 87,500 (2019: EUR 87,500) and payable at financial year end was EUR 21,875 (2019: EUR 21,875).

(c) Audit fees

The Company incurred EUR 36,129 (2019: EUR 34,706) (exclusive of VAT) of audit and assurance fees during the financial year, of which EUR 31,041 (2019: EUR 25,953) was outstanding at financial year end. No other fees were paid to the statutory auditor during the financial year There were no non-audit services performed during the financial year.

(d) Performance fee

Performance fees are calculated in accordance with the Information Memorandum and will be accounted for as an expense in the Statement of Comprehensive Income. In accordance with Section 1 of the Information Memorandum, the Company's Investment Adviser is entitled to a performance fee, if any, in each performance period. The performance fee shall accrue and be taken into account in calculating the NAV per Share at each valuation point. The performance fee is payable annually in arrears. Any performance fee due shall be paid within thirty (30) days after the end of the performance period for which it is due. The following terms apply in the calculation of the performance fees:

• Priority Return - a rate of return equal to an internal rate of return ("IRR") of six percent (6%) per annum compounded annually from the applicable Drawdown Date.
• Increase - the total of each year’s increase, if any, in the NAV of the relevant Class, calculated as the NAV of the relevant Class as determined at the last Valuation Point of each Performance Period, plus Net Capital Contributions.
• Net Capital Contributions - Capital Contributions taking into account distributions previously made and additional Capital Contributions.
• Total Performance Fee - not to be below zero, the lesser of, (i) (a) ninety percent (90%) multiplied by (b) the Increase minus the Priority Return (the "Outperformance"), and (ii) an amount equal to fifteen percent (15%) of the Increase. Under no circumstances shall the Company Investment Adviser be paid more than 15% of the Increase.
• Performance Fee - any remaining amount above zero of the Total Performance Fee less any prior Performance Periods’ Performance Fees.
• Performance Period - the first Business Day through the last Business Day of each calendar year, with the exception of the initial Performance Period, which shall be the Valuation Point on the first Drawdown Date through the last Business Day of that calendar year. The last Performance Period will end on the earlier of the last Business Day of the Term (or any extension thereof) or the winding up of the Fund.

There were no performance fees for the financial year, or outstanding at year end (2019: Nil).

7 Other operating expenses

	31-Dec-20 EUR	31-Dec-19 EUR
Research fees	6,794	206,628
Professional fees	90,213	52,463
Insurance fees	8,302	7,901
Directors fees	81,967	3,205
Regulatory fees	1,318	1,398
Brokerage fees	4,373	20,140
Bank charges and other expenses	120,988	85,671
	313,955	**377,406**

8 Other receivables

	31-Dec-20 EUR	31-Dec-19 EUR
Intercompany receivables	325,499	2,274,729
Interest receivable from financial assets at FVTPL	15,834	241,833
VAT receivable	6,771	-
	348,104	**2,516,562**

Intercompany receivables are interest free, unsecured and receivable on demand.

Interest receivable balance relates to interest receivable from debt securities. The Board of Directors believe that these balances are fully recoverable.

9 Prepayments

	31-Dec-20 EUR	31-Dec-19 EUR
Prepaid expenses	637	608
	637	**608**

Prepayments relates to insurance fees paid in advance.

10 Other payables and accrued expenses

	31-Dec-20 EUR	31-Dec-19 EUR
Audit fees	31,041	25,953
Advisory fees	382,463	454,235
Administration fees	21,875	21,875
Interest on credit default swap	9,166	85,833
Other payables	107,554	15,473
	552,099	**603,369**

11 Share capital

As at 31 December 2020	Number of shares	EUR
Ordinary share issued and outstanding - par value of EUR 1	1	1
	1	1

The authorised share capital of the Company is EUR 1,000,000,000 divided into ordinary shares of EUR 1 par value each. Upon incorporation, the Company issued one ordinary share at a price of EUR 1 to Cafico Trust Company Limited (the "Share Trustee") on trust for charitable purposes pursuant to a declaration of trust dated 19 January 2018 (the "Share Trust"). Under the Share Trust, the Share Trustee holds the share as nominee for and on behalf of the beneficial owner and waives all rights to any past or future dividends in favour of the beneficial owner. The Share Trustee has covenanted in the Share Trust that it will not: (a) interfere in the management, administration or conduct of business of the Company including with respect to the appointment or termination of the Company's Corporate Services Firm; (b) propose or pass any resolution to wind-up or take any other steps or actions whatsoever for the purposes of winding-up the Company or make or support any petition to wind-up or appoint an administrator, examiner or similar person to the Company or any subsidiary or related company of the Company; or (c) appoint or remove any Company Director or any director of a subsidiary of the Company.

The holder of the ordinary share is entitled to attend and vote at general meetings of the Company. Any dividends payable will be distributed to the shareholders of the Company and, on the winding up of the Company, any surplus assets, after the repayment of its borrowings or debt securities such as the PPN will be distributed amongst its shareholders (after share capital).

No dividends have been declared or paid during the financial year.

12 Taxation

	31-Dec-20 EUR	31-Dec-19 EUR
Profit before tax	1,600	1,600
Taxation	(400)	(400)
Profit after tax	**1,200**	**1,200**

The Company is subject to Irish Corporation Tax at a rate of 25% on the Company’s net taxable profit.

13 Cash and cash equivalents

	31-Dec-20 EUR	31-Dec-19 EUR
Cash at bank	9,259,136	30,674,712
	9,259,136	**30,674,712**

For the purpose of the cash flow statement, cash and cash equivalents comprise the preceding balances with maturity of less than 90 days.

14 Margin account

	31-Dec-20 EUR	31-Dec-19 EUR
Margin cash	-	587,036
	-	**587,036**

Margin account represents margin deposits held in respect of the credit default swap entered with BNP Paribas.

15 Related party transactions

The Directors of the Company are considered to be related parties because they constitute the key management personnel.

Cafico Corporate Services Limited provided corporate services to the Company on an arm's length basis at commercial rates. The Company considers Cafico Corporate Secretaries Limited a related party because Rodney O'Rourke and Yolanda Kelly are both Directors of Cafico Corporate Secretaries Limited. They are also members of the key management personnel of the Company as Directors. EUR 115,893 (2019: EUR 26,385) of professional and director fees were paid to Cafico Corporate Services Limited for corporate services in the financial year.

Please refer to Note 11 for further detail on issuance of ordinary shares held by Cafico Trust Company Limited.

The Investment Adviser provided investment advisory services to the Company. Young Lee is a member of the key management personnel of the Company as Directors, as was Howard Sullivan prior to his resignation from the Board of Directors. Please refer to Note 6 for further detail on advisory fees.

16 Ultimate controlling party

In the opinion of the Board of Directors, there is no ultimate controlling party or parent entity.

17 Interests in other entities

ORI-1 meets the definition of a subsidiary in accordance with IFRS 10. The Company and ORI-1 both meet the definition of an Investment Entity and as such are measured at FVTPL. The carrying value of ORI-1 and interests in other entities per the financial statements is shown below:

	31-Dec-20 Carrying value EUR	31-Dec-19 Carrying value EUR
MacKay Shields ECO ORI-1 Designated Activity Company	83,220,313	51,288,913
	83,220,313	**51,288,913**

In accordance with IFRS 12 - 'Disclosure of Interest in Other Entities' ("IFRS 12") paragraph 19, the Company is also required to disclose the following information:

Name:	MacKay Shields ECO ORI-1 Designated Activity Company
Place of Business:	2nd Floor Palmerston House Fenian Street Dublin 2 Ireland
Ownership interests held:	100%

18 Significant events during the financial year

During the financial year ended 31 December 2020, the Company made a PPN interest payment to the Fund to the value of EUR 2,094,142.

The Company acquired PPNs in ORI-1 to the value of EUR 31,899,728 during the financial year (2019: EUR 29,213,027). As at 31 December 2020, the Company had acquired PPNs in ORI-1 with a cumulative value of EUR 81,703,983 (2019: EUR 49,804,255).

During the financial year EURO CLO-1 paid interest to the Company totalling EUR 3,395,198 (2019: EUR 2,663,899)

The Company acquired PPNs in EURO CLO-2 during the financial year to the value of EUR 20,000,000 (2019: EUR nil). On 30 July 2020, EURO CLO-2 priced and the Company acquired the subordinated loan notes, with EUR 16,500,000 being held for risk retention purposes in accordance with EU Regulation. As at 31 December 2020, the Company held the entire subordinated loan notes in EURO CLO-2, with a par value of EUR 22,000,000.

19 Subsequent events

The novel coronavirus ("COVID-19") pandemic continues to spread in the United States and throughout the world, and has created and may continue to create extreme stress and disruption in the global economy and financial markets, as well as elevated mortality and morbidity experience for the global population. The ultimate extent of the impact will depend on numerous factors, all of which are highly uncertain and cannot be predicted. These factors include the length and severity of the outbreak, including the impact of new variants of the virus and the efficacy of vaccines and therapeutic treatments in combating the virus, the effectiveness of responses to the pandemic taken by governments and private sector businesses, and the impacts on the Company's performance. The Company continues to monitor the economic environment and other potential impacts relating to the COVID-19 pandemic as it relates to its business operations.

20 Approval of financial statements

These financial statements were approved and available for issuance on 29 March 2021. Subsequent events have been evaluated through to this date.

MacKay Shields ECO Funding Designated Activity Company
Unaudited Information
As at 31 December 2019

Schedule of Investments

Country	Industry	Currency	Fair value (EUR)
Luxembourg			
Medical Technology International Acquisitions S.a.r.l. Facility B1	Healthcare & Pharmaceuticals	EUR	1,721,325
Medical Technology International Acquisitions S.a.r.l. Term Loan B	Healthcare & Pharmaceuticals	EUR	1,196,175
Sportradar Capital S.a r.l. Facility B Loan	Industrials & Transportation	EUR	1,996,660
Total Luxembourg			**4,914,160**
Ireland			
MacKay Shields ECO ORI-1 DAC	Financial Services	EUR	83,220,313
MacKay Shields Euro CLO-1 DAC subordinated loan notes (risk retention)	Financial Services	EUR	16,964,094
MacKay Shields Euro CLO-1 subordinated loan notes (held-for-sale)	Financial Services	EUR	10,296,201
MacKay Shields Euro CLO-2 DAC subordinated loan notes (risk retention)	Financial Services	EUR	16,783,800
MacKay Shields Euro CLO-2 subordinated loan notes (held-for-sale)	Financial Services	EUR	5,321,764
Total Ireland			**132,586,173**
USA			
Alloy Parent Limited - Facility B2	Aerospace & Defense	USD	597,412
Alloy Finco Limited - Facility B	Aerospace & Defense	USD	389,379
Total USA			**986,790**
Canada			
Knowlton Development Corporation Inc. - EUR TLB	Consumer Staple Products	USD	1,992,925
Total Canada			**1,992,925**
Derivative Financial Instruments			
ITRAXX EUROPE SUB FINANCIALS SERIES 33 VERSION 1	Financial Services	EUR	(23,943)
Total Derivative financial instruments			**(23,943)**
Total investments at fair value			**140,456,105**