AUDITED FINANCIAL STATEMENTS

TETRAGON FINANCIAL GROUP LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2015

TETRAGON FINANCIAL GROUP LIMITED

AUDITED FINANCIAL STATEMENTS
For the year ended 31 December 2015

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TETRAGON FINANCIAL GROUP LIMITED

DIRECTORS' REPORT
For the year ended 31 December 2015

The Directors present to the shareholders their report together with the audited financial statements for the year ended 31 December 2015.

THE COMPANY AND ITS INVESTMENT OBJECTIVE

Tetragon Financial Group Limited (the "Company") was registered in Guernsey on 23 June 2005 as a company limited by shares, with registered number 43321. All voting shares of the Company are held by Polygon Credit Holdings II Limited (the "Voting Shareholder"). The Company continues to be registered and domiciled in Guernsey, and the Company's non-voting shares (the "Shares") are listed on Euronext Amsterdam N.V. (ticker symbol: TFG.NA). On 9 November 2015, the Company announced the successful admission ("Admission") of its non-voting shares to trading on the Specialist Fund Market of the London Stock Exchange plc ("SFM") (ticker symbol: TFG.LN). The Company acts as a feeder fund in a "master feeder structure" investing substantially all of its assets in Tetragon Financial Group Master Fund Limited (the "Master Fund").

The Company's investment objective is to generate distributable income and capital appreciation. It aims to provide stable returns to investors across various credit, equity, interest rate, inflation and real estate cycles. The Master Fund's investment portfolio comprises a broad range of assets, including a diversified alternative asset management business, TFG Asset Management, and covers bank loans, real estate, equities, credit, convertible bonds and infrastructure.

As at 31 December 2015, TFG Asset Management consisted of Polygon Global Partners LP and Polygon Global Partners LLP (collectively with certain affiliates, "Polygon"), LCM Asset Management LLC ("LCM"), Equitix Holdings Limited ("Equitix"), Hawke's Point, the GreenOak Real Estate LP ("GreenOak") joint venture and Tetragon Credit Income Partners ("TCIP").

TFG Asset Management L.P. is registered as an investment adviser under the U.S. Investment Advisers Act of 1940 (the "Advisers Act") and one of its investment management entities, Polygon Global Partners LLP, is authorized and regulated by the United Kingdom Financial Conduct Authority. The registered office of the Fund is 1st Floor Dorey Court, Admiral Park, St. Peter Port, Guernsey, Channel Islands, GY1 6HJ.

RESULTS, ACTIVITIES AND FUTURE DEVELOPMENTS

The results of operations are set out on pages 9 to 10. A detailed review of activities and future developments is contained in the Annual Report issued with these financial statements to the shareholders.

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Paddy Dear
Rupert Dorey*
Reade Griffith
Frederic Hervouet*
David Jeffreys*
Byron Knief*

* Independent non-executive Directors

The remuneration for Directors is determined by resolution of the Voting Shareholder. Each of the Directors' annual fee is US$ 100,000 (year ended 31 December 2014: US$ 100,000) as compensation for service on the Boards of Directors of both the Company and the Master Fund, which is paid by the Master Fund. Paddy Dear and Reade Griffith have waived their entitlement to a fee in respect of their services as Directors.

The Directors have the option to elect to receive Shares in the Company instead of the quarterly fee. With respect to the quarter ending 31 December 2015, Frederic Hervouet has elected to receive Shares and he received 2,564 Shares in relation to the first quarter's fee, 2,354 Shares in relation to the second quarter's fee and 2,495 Shares in relation to the third quarter's fee. The number of Shares issued instead of the fee for the fourth quarter will be determined as part of the fourth quarter 2015 dividend process.

The Directors are entitled to be repaid by the Company for all travel, hotel and other expenses reasonably incurred by them in the discharge of their duties. None of the Directors has a contract with the Company or the Master Fund providing for benefits upon termination of employment.

SECRETARY

State Street (Guernsey) Limited held the office of Secretary throughout the year and up to the date of this report.

DIVIDENDS

The Board of Directors has the authority to declare dividend payments, based upon the recommendation of the Investment Manager, subject to the approval of the voting shares of the Company and adherence to applicable law including the satisfaction of a solvency test as stated under The Companies (Guernsey) Law, 2008. The Investment Manager's recommendation with respect to the declaration of dividends (and other capital distributions) may be informed by a variety of considerations, including (i) the expected sustainability of the Company's cash generation capacity in the short and medium term, (ii) the current and anticipated performance of the Company, (iii) the current and anticipated operating and economic environment and (iv) other potential uses of cash ranging from preservation of the Company's investments and financial position to other investment opportunities.

DIVIDENDS (continued)

The Directors declared a dividend amounting to US$ 0.1575 per Share for the quarter ended 31 December 2014, US$ 0.1575 per Share for the Quarter Ended 31 March 2015, US$ 0.1625 per Share for the Quarter Ended 30 June 2015 and US$ 0.1625 per Share for the Quarter Ended 30 September 2015. The total dividend declared during the year ended 31 December 2015 amounted to US$ 62.5 million or US$ 0.64 per Share (31 December 2014: US$ 58.4 million or US$ 0.61 per Share). On 25 February 2016, the Directors declared a dividend US$ 0.165 per Share for the Quarter Ended 31 December 2015.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Companies (Guernsey) Law, 2008 requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping of proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

The Guernsey Financial Services Commission ("GFSC") has issued a Code of Corporate Governance (the "Code") which provides a framework that applies to all entities licensed by the GFSC or which are registered or authorised as a collective investment scheme under the Protection of Investors (Bailiwick of Guernsey) Law, 1987.

STATEMENT OF DIRECTORS' RESPONSIBILITIES (continued)

In conformity with the Code, the Company has prepared a self-assessment reflecting its nature, scale and complexity in order to assist the Directors in their annual consideration of the Code.

The Directors confirm that we have complied with the above requirements in preparing the financial statements and that to the best of our knowledge and belief:

- The annual report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces; and
- The financial statements, prepared in conformity with U.S. GAAP give a true and fair view of the assets, liabilities, financial position, results and cash flows of the Company.

DISCLOSURE OF INFORMATION TO AUDITOR

So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware, and each has taken all the steps he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITORS

KPMG are the appointed independent auditors of the Company and they have expressed their willingness to continue in office. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

Date: 25 February 2016

Independent Auditors' Report

The Board of Directors
Tetragon Financial Group Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Tetragon Financial Group Limited (the "Fund" or "Company"), which comprise the statements of assets and liabilities as of December 31, 2015 and 2014, and the related statements of operations, statements of changes in net assets, statements of cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tetragon Financial Group Limited as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG
Dublin, Ireland

February 25, 2016

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TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF ASSETS AND LIABILITIES
As at 31 December 2015

	Note	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
Assets			
Investment in the Master Fund	2	1,877.4	1,834.9
Total assets		1,877.4	1,834.9
Liabilities			
Accrued incentive fee	5	4.7	4.1
Amounts payable on share options	4	-	12.3
Total liabilities		4.7	16.4
Net assets		1,872.7	1,818.5
Equity			
Share capital	6	0.1	0.1
Share premium	7	921.9	929.4
Capital reserve in respect of share options	4, 8	28.1	11.8
Share based employee compensation reserve	3, 12	19.6	31.4
Retained earnings	11	903.0	845.8
		1,872.7	1,818.5
Shares outstanding		**Millions**	**Millions**
Shares	6	95.9	95.9
Net Asset Value per share		US$ 19.54	US$ 18.96

The accompanying notes are an integral part of the financial statements.

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

Date: 25 February 2016

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF OPERATIONS
For the year ended 31 December 2015

	Note	Year ended 31 Dec 2015 US$ MM	Year ended 31 Dec 2014 US$ MM
Investment income allocated from the Master Fund			
Interest income		134.7	152.5
Fee income		70.2	81.1
Other income – cost recovery		17.3	23.6
Insurance recovery		9.8	1.0
Dividend income		0.1	0.1
Total investment income allocated from the Master Fund		232.1	258.3
Direct expenses			
Incentive fee	5	(35.8)	(22.8)
Total direct expenses		(35.8)	(22.8)
Operating expenses allocated from the Master Fund			
Employee costs		(58.6)	(61.7)
Management fees	8	(28.3)	(27.0)
Share based employee compensation	3	(22.0)	(23.1)
Legal and professional fees		(7.2)	(17.6)
Amortization on intangible assets		(6.3)	(6.8)
Audit fees		(0.4)	(0.4)
Other operating and administrative expenses		(21.2)	(21.8)
Total operating expenses allocated from the Master Fund		(144.0)	(158.4)
Total operating expenses		(179.8)	(181.2)
Net investment income		52.3	77.1
Net decrease in unrealized depreciation on:			
Share options	4	(3.9)	(1.6)
Net decrease in unrealized depreciation arising from direct operations		(3.9)	(1.6)
Net realized and unrealized gain from investments and foreign currency allocated from the Master Fund			
Net realized gain / (loss) from:			
Investments		82.7	124.4
Derivative financial instruments		4.8	(36.3)
Foreign currency transactions		4.9	12.0
		92.4	100.1

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF OPERATIONS (continued)
For the year ended 31 December 2015

	Note	Year ended 31 Dec 2015 US$ MM	Year ended 31 Dec 2014 US$ MM
Net (decrease) / increase in unrealized (depreciation) / appreciation on:			
Investments		(0.3)	(52.2)
Derivative financial instruments		8.0	10.2
Translation of assets and liabilities in foreign currencies		(11.1)	(25.9)
		(3.4)	(67.9)
Net realized and unrealized gain from investments and foreign currencies allocated from the Master Fund		89.0	32.2
Net increase from operations before tax		137.3	107.7
Income and deferred tax expense allocated from the Master Fund		(10.1)	(12.6)
Net income		127.3	95.1
Earnings per Share			
Basic	10	US$ 1.31	US$ 1.00
Diluted	10	US$ 1.21	US$ 0.90
Weighted average Shares outstanding		**Millions**	**Millions**
Basic	10	97.1	95.4
Diluted	10	105.5	106.1

The accompanying notes are an integral part of the financial statements.

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF CHANGES IN NET ASSETS
For the year ended 31 December 2015

	Note	Year ended 31 Dec 2015 US$ MM	Year ended 31 Dec 2014 US$ MM
From operations:			
Total investment income		232.1	257.3
Total operating expenses		(179.8)	(180.2)
Net unrealized depreciation on share options		(3.9)	(1.6)
Net realized gain from investments and foreign currency allocated from the Master Fund		92.4	100.1
Net unrealized gain / (loss) from investments and foreign currency allocated from the Master Fund		(3.4)	(67.9)
Income and deferred tax expense		(10.1)	(12.6)
Net income		127.3	95.1
Share based employee compensation	3	22.0	23.1
Net increase in net assets resulting from operations		149.3	118.2
Dividends paid to shareholders	9	(50.5)	(52.0)
Issue of Shares	6	0.1	-
Purchase of Treasury Shares	6	(60.9)	(50.9)
Capital reserve in respect of Share Options	4	16.3	-
Decrease in net assets resulting from net share transactions		(44.5)	(50.9)
Total increase in net assets		54.3	15.3
Net assets at start of year		1,818.5	1,803.2
Net assets at end of year		1,872.7	1,818.5

The accompanying notes are an integral part of the financial statements.

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF CASH FLOWS
For the year ended 31 December 2015

	Year ended 31 Dec 2015 US$ MM	Year ended 31 Dec 2014 US$ MM
Operating activities		
Net income	127.3	95.1
Adjustments for:		
Net unrealized depreciation on share options	3.9	1.6
Share based employee compensation expense	22.0	23.1
Net unrealized (depreciation) / appreciation on investment in the Master Fund	(42.5)	11.8
Operating cash flows before movements in working capital	110.7	131.6
Increase / (decrease) in payables	0.6	(28.7)
Net cash provided by operating activities	111.3	102.9
Financing activities		
Issue of Shares	0.1	-
Purchase of Treasury Shares	(60.9)	(50.9)
Dividends paid to shareholders*	(50.5)	(52.0)
Net cash used in financing activities	(111.3)	(102.9)
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	-	-

The accompanying notes are an integral part of the financial statements.

*The gross dividend payable to shareholders was US$ 62.5 million (2014: US$ 58.4 million) with value equivalent to US$ 12.0 million (2014: US$ 6.4 million) being taken by the dividend recipient in Shares rather than cash.

** The Company does not maintain any bank accounts or cash balances. All cash transactions take place within the Master Fund.

TETRAGON FINANCIAL GROUP LIMITED

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2015

The following represents selected per Share operating performance of the Company, ratios to average net assets and total return information for the year ended 31 December 2015 and the year ended 31 December 2014.

	31 Dec 2015	31 Dec 2014
	US$	US$
Per Share operating performance		
Net Asset Value at the start of the year	18.96	18.23
Net investment income (before incentive fee)	0.91	1.05
Incentive fee	(0.37)	(0.24)
Net realized and unrealized gain from investments and foreign currencies	0.87	0.32
Share based employee compensation	0.23	0.24
Dividends paid to shareholders	(0.52)	(0.61)
Income and deferred tax expense	(0.10)	(0.13)
Other capital transactions	(0.44)	0.10
Net Asset Value at the end of the year	19.54	18.96
Pro Forma Fully Diluted NAV per Share	**Millions**	**Millions**
Shares outstanding	95.9	95.9
Shares held in escrow	6.6	10.7
Share options	1.7	-
Pro Forma Fully Diluted Shares	104.2	106.6
Pro Forma Fully Diluted Net Asset Value per Share	US$ 17.97	US$ 17.05
Total return (NAV change before dividend payments and other capital transactions) before incentive fee	10.07%	8.10%
Incentive fee	(1.95%)	(1.31%)
Total return (NAV change before dividend payments and other capital transactions) after incentive fee	8.12%	6.79%
Ratios and supplemental data		
Ratio to average net assets:		
Operating expenses allocated from the Master Fund	(6.46%)	(7.46%)
Total operating expenses	(6.46%)	(7.46%)
Incentive fee	(1.89%)	(1.27%)
Net investment income	2.78%	4.29%

An individual shareholder's per Share operating performance and ratios may vary from the above based on the timing of capital transactions.

Note 1 Significant Accounting Policies

Basis of Presentation

The financial statements give a true and fair view, are prepared in conformity with U.S. GAAP and comply with The Companies (Guernsey) Law, 2008.

The Company's investment in the Master Fund is valued based on the Net Asset Value ("NAV") per share, obtained from the Master Fund's Administrator, which is the Company's interest in the Net Assets of the Master Fund. The performance of the Company is directly affected by the performance of the Master Fund.

The Company's Statements of Operations includes its allocated share of each type of gain, loss, income and expense of the Master Fund's Statements of Operations. Attached are the audited consolidated financial statements of the Master Fund, which are an integral part of these financial statements. As at 31 December 2015, the Company had 100% (31 December 2014: 100%) economic ownership interest in the Master Fund. As the Company's only asset is 100% of the non-voting shares of the Master Fund and the audited consolidated financial statements of the Master Fund are attached, a separate Schedule of Investments for the Company has not been included.

For financial statement reporting purposes, the Company is an investment company and follows the measurement guidance set out in ASC 946, Financial Services – Investment Companies.

The accounting policies have been consistently applied by the Company during the year ended 31 December 2015 and are consistent with those used in the previous year.

The financial statements are presented in United States Dollars.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes, including the valuation of investments. The Company's management believes that the estimates made in preparing the financial statements are reasonable and prudent. Actual results could differ materially from these estimates.

Valuation of Investments

The value of the investment in the Master Fund is based on the NAV per share obtained from the Master Fund's Administrator.

Expenses

Expenses are recognized in the Statements of Operations on an accruals basis.

Note 1 Significant Accounting Policies (continued)

Taxation

The Company is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged GBP 1,200 per annum (31 December 2014: GBP 600).

In accordance with ASC Subtopic 740-10 – Income Taxes – Overall, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized.

Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. There were no uncertain tax positions recognized at 31 December 2015 (31 December 2014: Nil).

Share Options

The fair value of the options granted to the Investment Manager at the time of the Company's initial public offering in 2007, was recognized as a charge to a reserve in respect of the share options, over the year in which the Investment Manager became unconditionally entitled to the options. The options were fully vested and immediately exercisable from the date of the grant, on 26 April 2007, and remain exercisable for ten years.

The fair value of options issued to certain founding partners of GreenOak are also recognized through a capital reserve in respect of share options. Previously, because of contingent elements, other than linked to market price, they were recognized as a liability in the Statements of Assets and Liabilities. More details are included in Note 4.

If and when the share options are exercised the share capital and share premium accounts will be increased by the applicable capital reserve.

Dividend Expensse

Dividend expense from Shares is recognized in the Statements of Changes in Net Assets.

Share Based Payments

Share-based compensation expense for all equity settled share-based payment awards granted is determined based on the grant-date fair value. The Company recognizes these compensation costs net of an estimated forfeiture rate, and recognizes compensation cost only for those Shares expected to meet the service and non-market performance vesting conditions, on a straightline basis over the requisite service period of the award. These compensation costs are determined at the aggregate grant level for service-based awards and at the individual vesting tranche level for awards with performance conditions.

Note 1 Significant Accounting Policies (continued)

Share Based Payments (continued)

When the Shares are actually issued the fair value of the Shares, as determined at the time of the award, is debited against the share based employee compensation reserve and credited to share capital and share premium. Any associated stock dividends accrued on the original award are debited against retained earnings and credited to share capital and share premium using the value determined by the stock reference price at the date of each applicable dividend.

Treasury Shares

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased Shares may be classified as treasury shares from an accounting perspective and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings. Shares may also be transferred out of the Treasury Account and into TFG Holdings I, an entity established through a joint arrangement with the Master Fund. Where this occurs the status of the Shares is unchanged from an accounting perspective and they are not included in the Shares outstanding on the Statements of Assets and Liabilities.

Note 2 Investment in the Master Fund

At the year end, the Master Fund held investments at fair value, management contracts, cash and cash equivalents, derivatives and other receivables and payables.

As at 31 December 2015, the Company had an investment of US$ 1,877.4 million in the Master Fund (31 December 2014: US$ 1,834.9 million).

Note 3 Share Based Payments

TFG Asset Management L.P. and certain of its affiliates, including Polygon's asset management businesses and infrastructure platform, along with Polygon's interests in LCM and GreenOak, were acquired on 28 October 2012 (the "Acquisition"), in exchange for consideration of approximately 11.7 million non-voting Shares to the sellers subject to certain vesting and forfeiture conditions (the "Aggregate Consideration"). The Aggregate Consideration shall be held in escrow (along with accrued stock dividends) until it is released over the period 2013 to 2017.

Under ASC 805 - Business Combinations ("ASC 805") these Shares are treated as payment for post combination services rather than upfront consideration, hence the initial consideration was determined to be nil, resulting in a bargain purchase. The expense is recognized in the Master Fund through the Statements of Operations, as well as reflecting the assets acquired and a reserve to reflect the capital contribution of the Shares from the Company. The Company has a share based compensation reserve and recognizes the expense indirectly as allocated from the Master Fund. The charge for the year ended 31 December 2015 amounted to US$ 22.0 million (31 December 2014: US$ 23.1 million).

Note 4 Share Options Issued to GreenOak Founders

On 16 September 2010, the Master Fund entered into a transaction with GreenOak whereby it received a 10% equity interest in GreenOak and agreed to provide, among other things, a working capital loan of up to US$ 10.0 million and a US$ 100.0 million co-investment commitment that is expected to fund up to a limited fixed percentage of any GreenOak sponsored investment program, with the Master Fund retaining the option to invest further amounts.

Under the terms of the transaction, the Company granted to the GreenOak founding partners ("Founders") options to purchase 3.9 million Shares (vesting after 5 years and subject to further conditions) at a strike price of US$ 5.50. The aggregate fair value of the options granted at the transaction date was US$ 0.5 million.

On 15 September 2015 the options vested, and as a result of vesting, all contingent elements to the options, other than market price, were removed. Under ASC 815, once the vesting conditions were met, the options were reclassified to equity. The accounting result of this is that a liability of US$ 16.3 million was reclassified to the capital reserve in respect of share options. US$ 16.3 million was the deemed fair value of the options at the time of vesting and was determined by using a Black-Scholes model (31 December 2014: US$ 12.3 million).

The options are split approximately as follows: 50% are exercisable from 1 January 2016, expiring a year later; 25% are exercisable from 1 January 2017, expiring a year later; 25% are exercisable from 1 January 2018, expiring a year later.

Note 5 Incentive Fee

The Company pays the Investment Manager an incentive fee for each Calculation Period (a period of three months ending on 31 March, 30 June, 30 September and 31 December in each year or as otherwise determined by the Directors) equal to 25% of the increase in the NAV of the Company during the Calculation Period (before deduction of any dividend paid or the amount of any redemptions or repurchases of the Shares (or other relevant capital adjustments) during such Calculation Period) above the Reference NAV (as defined below) plus the Hurdle (as defined below) for the Calculation Period. If the Hurdle is not met in any Calculation Period (and no incentive fee is paid), the shortfall will not carry forward to any subsequent Calculation Period.

The "Hurdle" for any Calculation Period will equal the Reference NAV multiplied by the Hurdle Rate (as defined below). The Hurdle Rate for any Calculation Period equals 3-month USD LIBOR determined as of 11:00 a.m. London time on the first London business day of the then current Calculation Period, plus the Hurdle Spread of 2.647858% in each case multiplied by the actual number of days in the Calculation Period divided by 365.

The "Reference NAV" is the greater of (i) NAV at the end of the Calculation Period immediately preceding the current Calculation Period and (ii) the NAV as of the end of the Calculation Period immediately preceding the Calculation Period referred to in clause (i). For the purpose of determining the Reference NAV at the end of a Calculation Period, NAV shall be adjusted by the amount of accrued dividends and the amounts of any redemptions or repurchase of the Shares (or other relevant capital adjustments) and incentive fees to be paid with respect to that Calculation Period.

Note 5 Incentive Fee (continued)

The incentive fee in respect of each Calculation Period is calculated by reference to the NAV before deduction of any accrued incentive fee. If the Investment Management Agreement is terminated other than at the end of a Calculation Period, the date of termination will be deemed to be the end of the Calculation Period. The incentive fee is normally payable in arrears after the end of the Calculation Period.

The incentive fee for the year ended 31 December 2015 was US$ 35.8 million (31 December 2014: US$ 22.8 million). As at 31 December 2015, US$ 4.7 million was outstanding (31 December 2014: US$ 4.1 million).

Note 6 Share Capital

Authorized

The Company has an authorized share capital of US$ 1.0 million divided into 10 voting shares, having a par value of US$ 0.001 each and 999,999,990 non-voting Shares, each having a par value of US$ 0.001. Shares are issuable either as certificated shares or uncertificated shares, and in both cases as registered shares in accordance with applicable law.

Voting Shares

The 10 voting shares in issue were issued at par and are owned by the Voting Shareholder, which is a non-U.S. affiliate of the Investment Manager.

The voting shares are the only shares of the Company entitled to vote for the election of Directors and on all other matters put to a vote of shareholders, subject to the limited rights of the Shares described below. The voting shares are not entitled to receive dividends.

Shares

The Shares are not entitled to vote on any matter other than limited voting rights in respect of variation of their class rights. The Shares carry a right to any dividends or other distributions declared by the Company. The Shares are subject to certain transfer restrictions as set out in the Company's Memorandum and Articles of Incorporation.

The Directors, upon the recommendation of the Investment Manager and with prior approval of a resolution of voting shares, may allot, issue or otherwise dispose of Shares to such persons, at such times, for such consideration and on such terms and conditions as they deem necessary or desirable. There are no pre-emption rights attaching to any Shares.

The Directors, upon the recommendation of the Investment Manager, may grant options over the Shares. The Company may repurchase Shares and hold such repurchased Shares as Treasury Shares.

Note 6 Share Capital (continued)

Share Transactions

	Voting Shares No.	Shares No. MM	Shares US$ MM
Shares in issue at 31 December 2013	10	98.9	0.1
Issued in lieu of stock dividend	-	0.6	-
Issued through release of tranche of Escrow Shares	-	1.2	-
Shares purchased during the year	-	(4.9)	-
Shares in issue at 31 December 2014	10	95.9	0.1
Issued in lieu of stock dividend	-	1.2	-
Issued through release of tranche of Escrow Shares	-	4.7	-
Shares purchased during the year	-	(6.0)	-
Shares in issue at 31 December 2015	10	95.9	0.1

Optional Stock Dividend

The Company has an Optional Stock Dividend Plan which offers investors an opportunity to elect to receive any declared dividend in the form of dividend shares at a reference price determined by calculating the five-day weighted average price post ex-dividend date.

During the year a total dividend of US$ 62.5 million (31 December 2014: US$ 58.4 million) was declared, of which US$ 50.5 million was paid out as a cash dividend (31 December 2014: US$ 52.0 million), and the remaining US$ 12.0 million (31 December 2014: US$ 6.4 million) was reinvested under the Optional Stock Dividend Plan.

Treasury Shares and Share Repurchases

The Company has entered into a joint arrangement with the Master Fund through the establishment of TFG Holdings I. The Company may transfer, and has transferred, Shares previously held in a Treasury Account to TFG Holdings I. Where this occurs the status of the Shares is unchanged from an accounting perspective and they are not included in the Shares outstanding on the Statements of Assets and Liabilities.

On 30 November 2007, the Company announced the implementation of a share repurchase program ("Program") of their outstanding Shares. This was renewed on several occasions. As at 31 December 2015, there was no share repurchase program in place.

When the Program was in operation, the Master Fund had undertaken to repurchase an identical number of its own shares from the Company as and when it made these repurchases in the open market. The Master Fund matched the price per share paid by the Company.

The shares are held in a Treasury Account or in TFG Holdings I, allowing them to potentially be resold back to the Company if it resells its own Shares back into the market at a later date. Whilst they are held by the Company (whether directly or via TFG Holdings I), the Shares are neither eligible to receive dividends nor are they included in the Shares outstanding on the Statements of Assets and Liabilities.

Note 6 Share Capital (continued)

Treasury Shares and Share Repurchases (continued)

On 15 December 2015, the Company and the Master Fund announced that under the terms of a "modified Dutch auction" tender offer (the "Tender Offer") it had accepted for purchase approximately 6.0 million non-voting shares of the Company at a purchase price of US$ 10.00 per share and an aggregate cost of US$ 60.9 million, including applicable fees and expenses. The repurchased Shares were exchanged with the Company for the identical amount of Master Fund Shares. Of the repurchased shares, 5.65m shares were transferred to an escrow account (see below) and the remainder were transferred to TFG Holdings I.

As at 31 December 2015, 17.0 million Shares are held in TFG Holdings I (31 December 2014: 16.6 million) and 12.8 million Shares in the Treasury Account (31 December 2014: 12.8 million), with an aggregate attributed cost of US$ 264.6 million (31 December 2014: US$ 261.0 million).

Escrow Shares

As part of the Acquisition to acquire TFG Asset Management, the Aggregate Consideration of 11.7 million Shares was moved to an escrow account where they were to be held before being released in conjunction with the agreed vesting schedule, subject to certain forfeiture conditions. During the year, 0.6 million Shares were added to the account due to stock dividends, whilst 4.7 million shares were released in accordance with the vesting terms and schedule, leaving 6.6 million Shares in the account as at 31 December 2015 (31 December 2014: 10.7 million). As a result of the release of 4.7 million shares, a value of US$ 33.8 million was debited against the Share Based Employee Compensation Reserve, which represented approximately 4.0 million Shares relating to the original escrow shares valued at the transaction share price of US$ 8.43. In addition, approximately 0.7 million Shares released relating to stock dividends awarded on the original shares released was debited against Retained Earnings, with the value being determined using the stock reference price at each applicable dividend date (US$ 7.5 million). The remaining Shares, which remain eligible for stock dividends, are expected to be released in 2016 and 2017, subject to the conditions described above.

Additionally, a second escrow account was opened during 2015. This is intended to hold Shares which will form part of a long term incentive plan ("LTIP") for certain employees of TFG Asset Management. During 2015, 5.65 million shares were moved into this account and going forward, these shares will be eligible to participate in the stock dividend. As at 31 December 2015, the terms and operation of this LTIP had yet to be finalized.

Note 6 Share Capital (continued)

Other Share Transactions

	Treasury Shares Shares No. MM	Shares held in TFG Holdings I Shares No. MM	Escrow shares – TFG AM acquisition Shares No. MM	Escrow Shares - LTIP Shares No. MM
Shares brought forward at 31 December 2013	7.9	16.6	11.3	-
Shares purchased during the year	4.9	-	-	-
Stock Dividend	-	-	0.7	-
Vested and released	-	-	(1.2)	-
Shares at 31 December 2014	12.8	16.6	10.7	-
Shares purchased during the year	-	0.4	-	-
Shares repurchased for use in LTIP	-	-	-	5.7
Stock Dividend	-	-	0.6	-
Vested and released	-	-	(4.7)	-
Shares at 31 December 2015	12.8	17.0	6.6	5.7

Note 7 Share Premium

	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
Balance at start of year	929.4	963.2
Premium arising on issuance of Shares	53.4	17.1
Discount arising from purchase of Shares	(60.9)	(50.9)
Balance at end of year	921.9	929.4

Note 8 Related Party Transactions

The Investment Manager is entitled to receive management fees equal to 1.5% per annum of the Net Asset Value of the Company payable monthly in advance prior to the deduction of any accrued incentive fee. All fees and expenses of the Company including the Management and Administration fees, but excluding incentive fees from the Investment Manager, are paid by the Master Fund and allocated fully to the Company. An incentive fee may be paid to the Investment Manager as disclosed in Note 5.

In recognition of the work performed by the Investment Manager in successfully arranging the global offering and the associated raising of new capital for the Company, in 2007 the Company granted to the Investment Manager options (the “Investment Management Options”) to purchase approximately 12.5 million of the Company’s Shares (before any application of potential anti-dilution) at an exercise price per share equal to the Offer Price (US$ 10.00).

Note 8 Related Party Transactions (continued)

The Investment Management Options were fully vested and immediately exercisable on the date of admission to Euronext Amsterdam N.V. and will remain exercisable until the 10th anniversary of that date. The aggregate fair value of the options granted at the time of the global offering was US$ 11.8 million. The fair value of each option granted during 2007 was US$ 0.94 on the date of grant using the Binomial-pricing model with the following average assumptions: expected dividend yield 8%, risk-free interest rate of 5.306%, an expected life of 5 years and a volatility of 17.5%.

The Company invests substantially all of its assets in the Master Fund, a Guernsey based closed-ended investment company which has the same Investment Manager as the Company.

The remuneration for Directors shall be determined by resolution of the Voting Shareholder. Each of the Directors' annual fee is US$ 100,000 as compensation for service on the Boards of Directors of both the Company and the Master Fund. The Directors have the option to elect to receive Shares in the Company instead of the quarterly fee. With respect to the year ending 31 December 2015, Frederic Hervouet has elected to receive Shares and he received 2,564 Shares in relation to the first quarter's fee, 2,354 Shares in relation to the second quarter's fee and 2,495 Shares in relation to the third quarter's fee. The number of Shares issued instead of the fee for the fourth quarter will be determined as part of the fourth quarter 2015 dividend process. The Master Fund will pay the Directors' fees. Paddy Dear and Reade Griffith have waived their entitlement to a fee in respect of their services as Directors. The Directors are entitled to be repaid by the Company all travel, hotel and other expenses reasonably incurred by them in the discharge of their duties. None of the Directors has a contract with the Company or the Master Fund providing for benefits upon termination of employment.

The Voting Shareholder is an affiliate of the Investment Manager and holds all of the voting shares. As a result of its ownership and the degree of control that it exercises, the Voting Shareholder will be able to control the appointment and removal of the Company's Directors (subject to applicable law). Affiliates of the Voting Shareholder also control the Investment Manager and, accordingly, control the Company's business and affairs.

Paddy Dear, Reade Griffith, Rupert Dorey and Frederic Hervouet - all Directors of the Company and the Master Fund – maintained (directly or indirectly) interests in Shares of the Company as at 31 December 2015, with interests of 1,401,647, 3,752,486, 102,717 and 10,133 Shares respectively (31 December 2014: 459,057, 1,377,683, 96,465 and Nil Shares respectively). Messrs, Griffith and Dear also have a (direct or indirect) interest in the Escrow Shares (as defined below).

As described in Note 4, TFG Asset Management L.P., including Polygon's asset management businesses and infrastructure platform, and interests in LCM and GreenOak, was acquired on 28 October 2012. The Shares issued in consideration are subject to vesting and forfeiture conditions and are held in escrow for release over the period 2013 to 2017. These escrow Shares are eligible to participate in the optional stock dividend program, and as a result of subsequent dividends, further Shares were added to the relevant escrow accounts. As part of the Acquisition, Messrs, Griffith and Dear, as founders of Polygon, were awarded consideration in Shares which will vest between 2015 and 2017.

Note 8 Related Party Transactions (continued)

In particular, Messrs, Griffith and Dear were initially allocated 5,539,954 and 1,955,291 Shares, respectively, and these are held in escrow pending release between 2015 and 2017. As at 31 December 2015, 4,443,375 Shares were held in escrow on behalf of Mr. Griffith (31 December 2014: 6,259,363 Shares) and 1,568,250 on behalf of Mr. Dear (31 December 2014: 2,209,190 Shares).

It was also contractually agreed at the time of the Acquisition that they would be entitled to total annual compensation in respect of their executive role with the Company and its subsidiaries totaling not more than US$ 100,000 each. During the year ended 31 December 2015 total compensation paid to them each in this capacity by the Master Fund was US$ 100,000 (31 December 2014: US$ 100,000).

Note 9 Dividends

	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
Quarter ended 31 December 2013 of US$ 0.15 per share	-	14.8
Quarter ended 31 March 2014 of US$ 0.15 per share	-	14.1
Quarter ended 30 June 2014 of US$ 0.155 per share	-	14.6
Quarter ended 30 September 2014 of US$ 0.155 per share	-	14.9
Quarter ended 31 December 2014 of US$ 0.1575 per share	15.1	-
Quarter ended 31 March 2015 of US$ 0.1575 per share	15.2	-
Quarter ended 30 June 2015 of US$ 0.1625 per share	15.7	-
Quarter ended 30 September 2015 of US$ 0.1625 per share	16.5	-
	62.5	58.4

The fourth quarter dividend of US$ 0.165 per share was approved by the Directors on 25 February 2016.

Note 10 Earnings per Share

	Year ended 31 Dec 2015 US$ MM	Year ended 31 Dec 2014 US$ MM
The calculation of the basic and diluted earnings per share is based on the following data:		
Earnings for the purposes of basic earnings per share being net profit attributable to shareholders for the year	127.3	95.1
Weighted average number of Shares for the purposes of basic earnings per share	97.1	95.4
Effect of dilutive potential Shares:		
Share based employee compensation	6.6	10.7
Share options	1.7	-
Weighted average number of Shares for the purposes of diluted earnings per share	105.5	106.1

Diluted earnings per share is calculated by adjusting the weighted average number of Shares outstanding assuming conversion of all potential dilutive Shares. Share options and share based employee compensation are potential dilutive Shares.

In respect of share based employee compensation, it is assumed that all of the Shares currently held in escrow will be released, thereby increasing the weighted average number of Shares. This includes Shares which are scheduled to vest and be released between 2016 and 2017.

In respect of share options, the intrinsic value of the Shares issued to the Investment Manager in connection with the global offering in 2007 (see Note 8) is calculated using the Company's quoted Share price on the last business day prior to the year end. This is then converted into a number of Shares by dividing the aforementioned intrinsic value by the aforementioned quoted Share price. This will yield the number of Shares to include in the dilution calculation.

In respect of share options issued to GreenOak, (see Note 4) a similar intrinsic value calculation is used to determine the number of Shares to include in the dilution calculation.

Note 11 Retained Earnings

	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
Balance at start of year	845.8	810.5
Net increase in net assets resulting from operations for the year	127.3	95.1
Dividends paid	(62.5)	(58.4)
Stock dividends on Shares released from Escrow	(7.5)	(1.4)
Balance at end of year	903.0	845.8

Note 12 Share based employee compensation reserve

	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
Balance at start of year	31.4	17.6
Share based employee compensation	22.0	23.1
Release of Escrow Shares	(33.8)	(9.3)
Balance at end of year	19.6	31.4

Note 13 Subsequent Events

The Directors have evaluated the period up to 25 February 2016, which is the date the financial statements were approved, and have concluded that there are no material events that require disclosure or adjustment to the financial statements.

Note 14 Approval of Financial Statements

The Directors approved the financial statements on 25 February 2016.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2015

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2015

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TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

DIRECTORS' REPORT
For the year ended 31 December 2015

The Directors present to the shareholders their report together with the audited consolidated financial statements for the year ended 31 December 2015.

THE FUND AND ITS INVESTMENT OBJECTIVE

Tetragon Financial Group Master Fund Limited (the "Fund") was registered in Guernsey on 23 June 2005 as a company limited by shares, with registered number 43322. All voting shares of the Fund are held by Polygon Credit Holdings II Limited (the "Voting Shareholder"). The Fund continues to be registered and domiciled in Guernsey.

The registered office of the Fund is 1st Floor Dorey Court, Admiral Park, St. Peter Port, Guernsey, Channel Islands, GY1 6HJ.

The Fund's investment objective is to generate distributable income and capital appreciation. It aims to provide stable returns to investors across various credit, equity, interest rate, inflation and real estate cycles. The company's investment portfolio comprises a broad range of assets, including a diversified alternative asset management business, TFG Asset Management, and covers bank loans, real estate, equities, credit, convertible bonds and infrastructure.

As at 31 December 2015, TFG Asset Management consisted of Polygon Global Partners LP and Polygon Global Partners LLP (collectively with certain affiliates, "Polygon"), LCM Asset Management LLC ("LCM"), Equitix Holdings Limited ("Equitix"), Hawke's Point, the GreenOak Real Estate LP ("GreenOak") joint venture and Tetragon Credit Income Partners ("TCIP").

TFG Asset Management L.P. is registered as an investment adviser under the U.S. Investment Advisers Act of 1940 and one of its investment management entities, Polygon Global Partners LLP, is authorised and regulated by the United Kingdom Financial Conduct Authority.

RESULTS, ACTIVITIES AND FUTURE DEVELOPMENTS

The results of operations are set out on page 8. A detailed review of activities and future developments is contained in the Annual Report issued with these consolidated financial statements to the shareholders of Tetragon Financial Group Limited (the "Feeder").

DIRECTORS

The Directors who held office during the year were:

Paddy Dear
Rupert Dorey*
Reade Griffith
Frederic Hervouet*
David Jeffreys*
Byron Knief*
* Independent non-executive Directors

The remuneration for Directors is determined by resolution of the Voting Shareholder. Each Director's annual fee is US$ 100,000 as compensation for service on the Board of Directors of both the Fund and the Feeder and is paid in quarterly installments by the Fund. Paddy Dear and Reade Griffith have waived their entitlement to a fee.

DIRECTORS (continued)

The Directors have the option to elect to receive Shares in the Feeder instead of the quarterly fee. With respect to the year ending 31 December 2015, Frederic Hervouet has elected to receive Shares and he received 2,564 Shares in relation to the first quarter's fee, 2,354 Shares in relation to the second quarter's fee and 2,495 Shares in relation to the third quarter's fee. The number of Shares issued instead of the fee for the fourth quarter will be determined as part of the fourth quarter dividend process.

The Directors are entitled to be repaid by the Fund for all travel, hotel and other expenses reasonably incurred by them in the discharge of their duties. None of the Directors has a contract with the Fund or the Feeder providing for benefits upon termination of employment.

DIVIDENDS

The Board of Directors has the authority to declare dividend payments, based upon the recommendation of the Investment Manager, subject to the approval of the voting shares of the Fund and adherence to applicable law including the satisfaction of a solvency test as stated under The Companies (Guernsey) Law, 2008. The Investment Manager's recommendation with respect to the declaration of dividends (and other capital distributions) may be informed by a variety of considerations, including (i) the expected sustainability of the Fund's cash generation capacity in the short and medium term, (ii) the current and anticipated performance of the Fund, (iii) the current and anticipated operating and economic environment and (iv) other potential uses of cash ranging from preservation of the Fund's investments and financial position to other investment opportunities. The Directors declared a dividend amounting to US$ 0.1575 per Share for the Quarter Ended 31 December 2014, US$ 0.1575 per Share for the Quarter Ended 31 March 2015, US$ 0.1625 per Share for the Quarter Ended 30 June 2015 and US$ 0.1625 per Share for the Quarter Ended 30 September 2015. The total dividend declared during the year ended 31 December 2015 amounted to US$ 62.5 million or US$ 0.64 per Share (31 December 2014: US$ 58.4 million or US$ 0.61 per Share). On 25 February 2016, the Directors have declared a dividend US$ 0.165 per Share for the Quarter Ended 31 December 2015.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Companies (Guernsey) Law, 2008, requires the Directors to prepare financial statements for each financial year. Under that law, they have elected to prepare the financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Fund and of the profit or loss of the Fund for that period.

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

- Select suitable accounting policies and apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Fund will continue in business.

The Directors are responsible for the keeping of proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities.

STATEMENT OF DIRECTORS' RESPONSIBILITIES (continued)

The Directors confirm that they have complied with the above requirements.

DISCLOSURE OF INFORMATION TO AUDITOR

So far as each of the Directors is aware, there is no relevant audit information of which the Fund's auditor is unaware, and each has taken all the steps he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Fund's auditor is aware of that information.

AUDITORS

KPMG are the appointed independent auditors of the Fund and they have expressed their willingness to continue in office. A resolution for the re-appointment of KPMG as auditors of the Fund is to be proposed at the forthcoming Annual General Meeting.

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

Date: 25 February 2016

Independent Auditors' Report

The Board of Directors
Tetragon Financial Group Master Fund Limited

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Tetragon Financial Group Master Fund Limited and its subsidiaries (the "Fund" or "Group"), which comprise the consolidated statements of assets and liabilities as of December 31, 2015 and 2014, and the related consolidated statements of operations, consolidated statements of changes in net assets, consolidated statements of cash flows for the years then ended and the consolidated condensed schedule of investments as of December 31, 2015 and 2014 and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tetragon Financial Group Master Fund Limited and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Dublin, Ireland
February 25, 2016

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TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
As at 31 December 2015

	Note	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
Assets			
Investments, at fair value (Cost US$ 2,070.0 million, 31 Dec 2014: US$ 1,916.4 million)	2	1,364.7	1,356.2
Management contracts	5	23.4	29.7
Cash and cash equivalents	8	440.4	402.0
Amounts due from brokers	9	59.9	52.1
Derivative financial assets	2, 3	19.4	19.2
Fixed assets	1	0.5	0.1
Deferred tax asset	17	9.2	10.0
Prepaid income tax	17	-	0.6
Other receivables	10	21.5	32.8
Total assets		1,939.0	1,902.7
Liabilities			
Derivative financial liabilities	2, 3	0.7	5.8
Other payables and accrued expenses	11	48.5	50.5
Income tax payable	17	5.8	2.9
Deferred tax liability	17	6.6	8.6
Total liabilities		61.6	67.8
Net assets		1,877.4	1,834.9
Equity			
Share capital	12	0.1	0.1
Share premium	13	881.1	888.6
Retained earnings	15	976.6	914.8
Capital contribution	16, 22	19.6	31.4
		1,877.4	1,834.9
Shares outstanding		**Millions**	**Millions**
Shares	12	95.9	95.9
Net Asset Value per share		US$ 19.58	US$ 19.13

The accompanying notes are an integral part of the consolidated financial statements.

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

Date: 25 February 2016

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS
For the year ended 31 December 2015

	Note	Year ended 31 Dec 2015 US$ MM	Year ended 31 Dec 2014 US$ MM
Interest income	18	134.7	152.5
Fee income	19	70.2	81.1
Other income – cost recovery	20	17.3	23.6
Insurance recovery	25	9.8	1.0
Dividend income		0.1	0.1
Investment income		232.1	258.3
Employee costs	24	(58.6)	(61.7)
Management fees	24	(28.3)	(27.0)
Share based employee compensation	22	(22.0)	(23.1)
Legal and professional fees		(7.2)	(17.6)
Amortization on intangible assets	5	(6.3)	(6.8)
Audit fees		(0.4)	(0.4)
Other operating and administrative expenses	21	(21.2)	(21.8)
Operating expenses		(144.0)	(158.4)
Net investment income		88.1	99.9
Net realized and unrealized gain / (loss) from investments and foreign currency			
Net realized gain / (loss) from:			
Investments		82.7	124.4
Derivative financial instruments		4.8	(36.3)
Foreign currency transactions		4.9	12.0
		92.4	100.1
Net (decrease) / increase in unrealized (depreciation) / appreciation on:			
Investments		(0.3)	(52.2)
Derivative financial instruments		8.0	10.2
Translation of assets and liabilities in foreign currencies		(11.1)	(25.9)
		(3.4)	(67.9)
Net realized and unrealized gain from investments and foreign currency		89.0	32.2
Net increase from operations before tax		177.1	132.1
Income and deferred tax expense	17	(10.1)	(12.6)
Net income		167.0	119.5

The accompanying notes are an integral part of the consolidated financial statements.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the year ended 31 December 2015

	Note	Year ended 31 Dec 2015 US$ MM	Year ended 31 Dec 2014 US$ MM
From operations:			
Net investment income		88.1	99.9
Net realized gain from investments and foreign currency		92.4	100.1
Net decrease in unrealized depreciation on investments and translation of assets and liabilities in foreign currencies		(3.4)	(67.9)
Income and deferred tax expense	17	(10.1)	(12.6)
Net income after tax		167.0	119.5
Share based employee compensation	22	22.0	23.1
Net increase in net assets resulting from operations		189.0	142.6
Dividends paid to Feeder in lieu of incentive fee liability	14	(35.2)	(51.5)
Dividends paid to shareholders	14	(50.5)	(52.0)
Total distributions		(85.7)	(103.5)
Issue of Shares	12	0.1	-
Purchase of Treasury Shares	12	(60.9)	(50.9)
Decrease in net assets resulting from capital transactions		(60.8)	(50.9)
Total increase / (decrease) in net assets		42.5	(11.8)
Net assets at start of year		1,834.9	1,846.7
Net assets at end of year		1,877.4	1,834.9

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the year ended 31 December 2015

	Year ended 31 Dec 2015 US$ MM	Year ended 31 Dec 2014 US$ MM
Operating activities		
Net income	167.0	119.5
Adjustments for:		
Realized gains on investments and derivatives	(72.8)	(88.1)
Cash received on investments in excess of interest income	220.8	216.7
Amortization on intangible assets	6.3	6.8
Share based employee compensation	22.0	23.1
Unrealized losses	3.4	67.9
Deferred tax	(1.2)	(3.8)
Operating cash flows before movements in working capital	345.5	342.1
Decrease / (increase) in receivables	14.1	(6.2)
Increase in payables	(2.1)	3.5
Income tax	3.5	2.3
Amounts due from brokers	(7.8)	(10.2)
Cash flows from operations	353.2	331.5
(Purchase) / sale of fixed assets	(0.3)	0.2
Proceeds from sale / prepayment / maturity of investments	133.0	250.2
Net proceeds / (payment) on derivative financial instruments	7.7	(28.8)
Purchase of investments	(309.0)	(241.5)
Net cash provided by operating activities	184.6	311.6
Financing activities		
Proceeds from issue of Shares	0.1	-
Treasury Shares	(60.9)	(50.9)
Dividends paid to shareholders*	(50.5)	(52.0)
Dividends paid to Feeder in lieu of incentive fee liability	(35.2)	(51.5)
Net cash used in financing activities	(146.5)	(154.4)
Net increase in cash and cash equivalents	38.1	157.2
Cash and cash equivalents at beginning of year	402.0	245.9
Effect of exchange rate fluctuations on cash and cash equivalents	0.3	(1.1)
Cash and cash equivalents at end of year	440.4	402.0

The accompanying notes are an integral part of the consolidated financial statements.

* The gross dividend payable to shareholders was US$ 62.5 million (2014: US$ 58.4 million) with a value equivalent to US$ 12.0 million (2014: US$ 6.4 million) elected to be taken by the dividend recipient in Shares rather than cash.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
As at 31 December 2015

Security Description	Nominal MM	Cost US$ MM	Fair Value US$ MM	% of Net Assets
United States CLO Equity				
Cayman Islands				
ABS and Structured Finance	18.4	17.6	-	0.00%
Broadly Syndicated Senior Secured Loans	1,125.1	1,028.8	510.8	27.21%
CDOs Squared	17.3	16.6	-	0.00%
Middle Market Senior Secured Loans	133.2	123.9	29.8	1.59%
	1,294.0	1,186.9	540.6	28.80%
European CLO Equity				
Ireland				
Broadly Syndicated Senior Secured Loans	100.4	121.5	20.3	1.08%
	100.4	121.5	20.3	1.08%
Luxembourg				
Broadly Syndicated Senior Secured Loans	71.1	84.3	23.3	1.24%
	71.1	84.3	23.3	1.24%
Netherlands				
Broadly Syndicated Senior Secured Loans	24.0	31.8	14.9	0.79%
	24.0	31.8	14.9	0.79%
United States CLO Mezzanine				
Cayman Islands				
Broadly Syndicated Senior Secured Loans	1.8	1.1	1.7	0.09%
	1.8	1.1	1.7	0.09%
Loans				
United Kingdom Loan Notes*	79.5	119.7	130.1	6.93%
United Kingdom Mezzanine Loan*	7.7	10.7	11.4	0.61%
United States Broadly Syndicated Senior Secured Loans	3.4	3.4	3.0	0.16%
	90.6	133.8	144.5	7.70%
Unlisted Stock				
Global Financial Real Estate Investment Manager		10.7	70.0	3.72%
Norway – Equity Investments		3.7	10.0	0.53%
United Kingdom – Infrastructure Asset Manager*		2.4	32.4	1.73%
United States – Equity Investments		20.2	21.5	1.15%
		37.0	133.9	7.13%
Investment Funds and Vehicles				
United States – Real Estate		43.7	47.4	2.52%
Japan – Real Estate		31.3	29.9	1.59%
Latin America – Real Estate		28.1	26.3	1.40%
Spain – Real Estate		12.8	12.5	0.67%
United Kingdom – Real Estate		27.6	25.6	1.37%
Global – Hedge Funds – Equities		60.9	64.0	3.41%
Polygon European Equity Opportunity Fund**		139.2	139.9	7.44%
Polygon Distressed Opportunities Fund***		95.0	95.1	5.07%
Global – Hedge Funds – Credit and Convertible Bonds		35.0	44.8	2.39%
		473.6	485.5	25.86%
Total Investments		**2,070.0**	**1,364.7**	**72.69%**

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS (continued)
As at 31 December 2015

Financial Derivative Instruments	**Fair Value US$ MM**	**% of Net Assets**
Forward Foreign Currency Exchange Contracts	10.1	0.54%
Credit default swaps	7.6	0.40%
Equity Total Return Swaps	1.0	0.05%
Total Financial Derivative Instruments	18.7	0.99%
Cash and Cash Equivalents	440.4	23.46%
Other Assets and Liabilities	53.6	2.86%
Net Assets	1,877.4	100.00%

* The securities held in Loan Notes, Mezzanine Loan and Infrastructure Asset Manager are the component parts of the Fund's investment in Equitix. See note 6 for more details.

**The investment in the Polygon European Equity Opportunity Fund consists of 436,051 units in Class A, 252,169 units in Class B and 230,084 units in Class C as at 31 December 2015.

The stated objective of the Polygon European Equity Opportunity Fund is to seek superior risk adjusted returns. Its stated intention is to invest predominantly in European listed equity securities, but may also invest in other asset classes and in other non-European jurisdictions. Given the applicable notice, liquidity of up to 25% of the investment is available on a quarterly basis (subject to certain conditions), and the entire investment could be liquidated over four consecutive quarters.

*** The investment in the Polygon Distressed Opportunities Fund consists of 456,562 units in Class A, 311,764 units in Class B, and 151,069 units in Class C at 31 December 2015.

The stated objective of the Polygon Distressed Opportunities Fund is to seek superior risk adjusted returns. It states that to achieve this objective, it will invest primarily in investments (directly or indirectly) in securities, instruments and assets that are either distressed or acquired from holders in distressed situations. Given the applicable notice, liquidity of up to 25% of the investment is available on a quarterly basis (subject to certain conditions) subject to the redemption occurring at least 12 months after the purchase of the shares or units to be redeemed. Accordingly, the entire investment could be liquidated over four consecutive quarters subject to the conditions above.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS (continued)
As at 31 December 2014

Security Description	Nominal MM	Cost US$ MM	Fair Value US$ MM	% of Net Assets
United States CLO Equity				
Cayman Islands				
ABS and Structured Finance	18.4	17.6	-	-
Broadly Syndicated Senior Secured Loans	1,107.6	1,006.8	639.7	34.88%
CDOs Squared	17.3	16.6	-	-
Middle Market Senior Secured Loans	163.0	152.5	57.1	3.11%
	1,306.3	1,193.5	696.8	37.99%
European CLO Equity				
Ireland				
Broadly Syndicated Senior Secured Loans	100.4	121.5	53.0	2.89%
	100.4	121.5	53.0	2.89%
Luxembourg				
Broadly Syndicated Senior Secured Loans	71.1	84.3	46.8	2.55%
	71.1	84.3	46.8	2.55%
Netherlands				
Broadly Syndicated Senior Secured Loans	24.0	31.8	20.3	1.10%
	24.0	31.8	20.3	1.10%
United States CLO Mezzanine				
Cayman Islands				
Broadly Syndicated Senior Secured Loans	1.8	1.1	1.7	0.09%
	1.8	1.1	1.7	0.09%
Loans				
United States Broadly Syndicated Senior Secured Loans	22.4	22.0	22.1	1.20%
Global Unsecured Loan	5.5	5.5	6.4	0.35%
	27.9	27.5	28.5	1.55%
Listed Stock				
United Kingdom – Equity Investments		33.3	29.4	1.60%
		33.3	29.4	1.60%
Unlisted Stock				
Global Financial Real Estate Investment Manager		10.7	66.5	3.62%
Norway – Equity Investments		2.4	2.8	0.15%
		13.1	69.3	3.77%
Investment Funds and Vehicles				
United States – Real Estate		44.9	46.1	2.52%
Japan – Real Estate		21.4	20.3	1.09%
Netherlands – Real Estate		0.2	0.1	0.01%
Spain – Real Estate		10.9	9.5	0.52%
United Kingdom – Real Estate		12.7	12.3	0.67%
Global – Hedge Funds – Equities		61.0	63.3	3.45%
Polygon European Equity Opportunity Fund*		134.2	120.8	6.58%
Polygon Distressed Opportunities Fund**		90.0	95.5	5.21%
Global – Hedge Funds – Credit and Convertible Bonds		35.0	42.5	2.32%
		410.3	410.4	22.37%
Total Investments		**1,916.4**	**1,356.2**	**73.91%**

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS (continued)
As at 31 December 2014

Financial Derivative Instruments	**Fair Value US$ MM**	**% of Net Assets**
Interest Rate Swaptions	0.6	0.03%
Forward Foreign Currency Exchange Contracts	10.0	0.55%
Credit default swaps	(4.1)	(0.23)%
Equity Total Return Swaps	6.9	0.38%
Total Financial Derivative Instruments	13.4	0.73%
Cash and Cash Equivalents	402.0	21.91%
Other Assets and Liabilities	63.3	3.45%
Net Assets	1,834.9	100.00%

*The investment in the Polygon European Equity Opportunity Fund consists of 415,537 units in Class A, 242,483 units in Class B and 228,851 units in Class C as at 31 December 2014.

The stated objective of the Polygon European Equity Opportunity Fund is to seek superior risk adjusted returns. Its stated intention is to invest predominantly in European listed equity securities, but may also invest in other asset classes and in other non-European jurisdictions. Given the applicable notice, liquidity of up to 25% of the investment is available on a quarterly basis (subject to certain conditions), and the entire investment could be liquidated over four consecutive quarters.

** The investment in the Polygon Distressed Opportunities Fund consists of 432,676 units in Class A, 295,765 units in Class B, and 143,549 units in Class C at 31 December 2014.

The stated objective of the Polygon Distressed Opportunities Fund is to seek superior risk adjusted returns. It states that to achieve this objective, it will invest primarily in investments (directly or indirectly) in securities, instruments and assets that are either distressed or acquired from holders in distressed situations. Given the applicable notice, liquidity of up to 25% of the investment is available on a quarterly basis (subject to certain conditions) subject to the redemption occurring at least 12 months after the purchase of the shares or units to be redeemed. Accordingly, the entire investment could be liquidated over four consecutive quarters subject to the conditions above.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

FINANCIAL HIGHLIGHTS
For the year ended 31 December 2015 and 31 December 2014

The following represents selected per Share operating performance of the Fund, ratios to average net assets and total return information for the year ended 31 December 2015 and 31 December 2014.

	31 Dec 2015	31 Dec 2014
	US$	US$
Per Share operating performance		
Net Asset Value at start of year	19.13	18.67
Net investment income	0.91	1.05
Net realized and unrealized gain from investments, derivatives and foreign currencies	0.92	0.34
Share based employee compensation	0.23	0.24
Dividends paid to shareholders	(0.88)	(1.15)
Income and deferred tax expense	(0.10)	(0.13)
Other capital transactions	(0.63)	0.11
Net Asset Value at the end of the year	19.58	19.13
Pro Forma Fully Diluted NAV per Share		
	Millions	**Millions**
Shares outstanding	95.9	95.9
Shares held in escrow	6.6	10.7
Pro Forma Fully Diluted Shares	102.5	106.6
Pro Forma Fully Diluted Net Asset Value per Share	US$ 18.32	US$ 17.21
Return (NAV change before dividend payments and other capital transactions)	10.25%	8.03%
Ratios and supplemental data		
Ratio to average net assets:		
Total operating expenses	(6.41%)	(7.39%)
Net investment income	4.63%	5.50%

An individual shareholder's per Share operating performance and ratios may vary from the above based on the timing of capital transactions.

Note 1 Significant Accounting Policies

Basis of Presentation

The consolidated financial statements give a true and fair view, are prepared in conformity with U.S. GAAP and comply with The Companies (Guernsey) Law, 2008.

For financial statement reporting purposes, the Fund is an investment company and follows Financial Services – Investment Companies (ASC 946).

The accounting policies have been consistently applied by the Fund during the year ended 31 December 2015 and are consistent with those used in the previous year.

The consolidated financial statements are presented in United States Dollars.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes, including the valuation of investments. The Fund's management believes that the estimates made in preparing the consolidated financial statements are reasonable and prudent, however actual results could differ materially from these estimates.

Foreign Currency Translation

Transactions in foreign currencies are translated at the foreign currency exchange rate ruling at the date of the transaction. All assets and liabilities denominated in foreign currencies are translated to U.S. Dollars at the foreign currency closing exchange rate ruling at the reporting date. Foreign currency exchange differences arising on translation and realized gains and losses on disposals or settlements of monetary assets and liabilities are recognized in the Consolidated Statements of Operations.

Foreign currency exchange differences relating to derivative financial instruments are included in foreign currency transactions and translation of assets and liabilities in foreign currencies in the Consolidated Statements of Operations. All other foreign currency exchange differences relating to monetary items, including cash and cash equivalents and investments, are included in the foreign currency transactions and translation of assets and liabilities in foreign currencies in the Consolidated Statements of Operations.

Investment Transactions and Investment Income

Investment transactions are recorded on a trade date basis (the trade date is the date that an entity commits to purchase or sell an asset). Realized gains and losses are calculated on the identified historical cost basis. Interest income is recognized on an effective interest rate basis.

Financial Instruments

Investments in CLO equity tranche investments ("CLO equity"), at fair value

In the absence of an active market for the equity tranche investments in securitization vehicles, a mark to model approach has been adopted to determine their valuation. A third party valuation model that is used by the Investment Manager and the Administrator has been selected for this purpose.

Note 1 Significant Accounting Policies (continued)

Financial Instruments (continued)

Investments in CLO equity tranche investments ("CLO equity"), at fair value (continued)

The model contains characteristics of the securitization vehicle structure, including current assets and liabilities, based upon information derived by a specialist firm, from data sources such as the securitization vehicles' trustee reports. Key model inputs include projected defaults and recovery rates and reinvestment spreads for the relevant class of underlying collateral held in the securitization vehicle. These inputs are derived by reference to a variety of market sources, which are used by both the Investment Manager and the Administrator.

The model projects future cash flows which are discounted at the applicable rate in order to determine fair value. The model assumptions are reviewed on a regular basis and adjusted as appropriate to take into account any changes in observable data in relation to these inputs.

The Fund recognizes interest income and any impairment pursuant to "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" (ASC 325). ASC 325 sets forth rules for recognizing interest income and determining when an investment is impaired.

In accordance with ASC 325, the excess of the estimated future cash flows over the initial investment is the accretable yield (or the "IRR"). At each individual coupon date, the IRR is recalculated and the new IRR is used to recognize interest income on that particular investment until the following coupon date using the effective yield method. Cash distributions received from investments under ASC 325 may not necessarily equal the income earned during any given year or period. The amortized cost of each investment is equal to the initial investment plus the yield accrued to date less all cash received to date less any write downs for impairment.

Investments in leveraged loans, at fair value

To the extent that the Fund's leveraged loans are exchange traded and are priced or have sufficient bid price indications from normal course trading at or around the valuation date (financial reporting date), such bid pricing will determine fair value. Pricing service marks from third party pricing services may be used as an indication of fair value, depending on the volume and reliability of the marks, sufficient and reasonable correlation of bid and ask quotes, and, most importantly, the level of actual trading activity.

Investments in CLO mezzanine tranche investments, at fair value

Investments in CLO mezzanine tranches are carried at fair value using the latest broker indicative bid prices. As the mezzanine tranches are marked-to-market, changes in the fair value are recognized immediately in the Consolidated Statements of Operations.

Investments in securities, listed stock, unlisted common stock and unsecured loans, at fair value

Investments in listed stock, unlisted stock and unsecured loans are carried at fair value. For listed stock, the closing exchange price is utilized as the fair value price. For unlisted securities, their cost price, the price at which any recent transaction in the security may have been effected and any other applicable factors may be considered, as well as valuation techniques which may be used by market participants.

Investments in unlisted investment funds, at fair value

Investments in unlisted investment funds are valued utilizing the net asset valuations provided by the managers of the underlying funds and / or their administrators. This approach is known as the "practical expedient" and has been applied in accordance with the ASU 820.

Note 1 Significant Accounting Policies (continued)

Financial Instruments (continued)

Investments in real estate, at fair value

Investments where the primary purpose is to seek exposure to real estate are either made through an unlisted investment fund structure (see "investments in unlisted investment funds, at fair value") or, where the Fund is the sole or majority investor in a company or partnership, which either directly or indirectly holds this exposure.

The Fund's interests are valued by reference to net asset valuations provided by the investment advisor for the investment and/or its administrator. The underlying real estate is revalued periodically but typically no more frequently than on an annual basis.

Forward currency contracts, at fair value

Forward currency contracts are recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are based on observable foreign currency forward rates, recent market transactions, and valuation techniques, including discounted cash flow models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of fair value of a forward contract at initial recognition is the transaction price. Subsequent changes in the fair value of any forward contract are recognized immediately in the Consolidated Statements of Operations.

Interest rate swaptions, at fair value

This instrument combines the features of two other financial instruments, namely an option and an interest rate swap. A swaption involves writing / purchasing options to enter into a swap.

When the Fund purchases a swaption, a premium is paid by the Fund and the swaption is initially recognized at the amount of the premium. The swaption is subsequently marked-to-market to reflect the fair value of the swaption purchased, which is reported as an asset on the Consolidated Statements of Assets and Liabilities, and changes in the fair value are recognized immediately in the Consolidated Statements of Operations. Premiums paid on the purchase of swaptions which expire unexercised are treated as realized losses.

Swaps and Contracts for difference

The Fund enters into swaps and contracts for difference ("CFDs") arrangements with financial institutions. Swaps and CFDs are typically traded on the OTC market. The arrangement generally involves an agreement by the Fund and a counterparty to exchange the difference between the opening and closing price of the position underlying the contract, which are generally on equity positions.

The fair value of the swap or CFD is derived by taking the difference between the quoted price of the underlying security and the contract price. Realized and unrealized gains and losses are included in the Consolidated Statements of Operations.

Credit default swaps

Credit default swaps are contracts in which the Fund pays or receives premium flows in return for the counterparty accepting or selling all or part of the risk of default or failure to pay of a reference entity on which the swap is written. Where the Fund has bought protection the maximum potential loss is the value of the premium flows the Fund is contracted to pay until maturity of the contract. Where the Fund has sold protection the maximum potential loss is the nominal value of the protection sold.

Note 1 Significant Accounting Policies (continued)

Financial Instruments (continued)

Credit default swaps (continued)

Credit default swaps are stated at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models, as appropriate. The net income or expense on the swap agreements entered into by the Fund is reflected in the Statements of Operations. Unrealized gains are reported as an asset and unrealized losses are reported as a liability in the Statements of Assets and Liabilities. Changes in the fair value are reflected in the Statements of Operations in the period in which they occur.

Tri-Party repurchase agreements

In a tri-party repurchase agreement, the Fund lends cash to a third party secured against collateral posted by the borrower to a collateral agent.

At any point the Fund can recall the loan with twenty-four hour's notice. Failure to deliver the cash will be considered an event of default, enabling the Fund to take delivery of the collateral posted with the collateral agent.

Due to the highly liquid nature of these instruments, the amount being lent through these tri-party repos is recorded as cash and cash equivalents in the Statements of Assets and Liabilities, with interest receivable accrued and recognized as interest income in the Statement of Operations.

Fixed Assets

Fixed assets are stated at cost and depreciated on a straight-line basis over their estimated useful lives.

Cash and Cash Equivalents

Cash comprises current deposits with banks. Cash equivalents comprised of short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Management Contracts

The cost of purchasing management contracts which provide investment management services to investment funds, accounts and other vehicles are amortized over their useful lives. Management contracts are stated at cost less accumulated amortization and impairment. The Fund reviews purchased intangible assets for impairment where there are events or changes in circumstance that indicate the carrying value of an asset may not be recoverable.

Amortization is recognized through profit or loss in the Consolidated Statements of Operations on a straight-line basis over the useful life of the agreements. The estimated useful life for the purposes of amortizing management contracts ranges from three to ten years.

Principles of Consolidation

In accordance with the accounting guidance in the AICPA Audit and Accounting Guide (2015): Investment Companies (the "Guide"), as an Investment Company, the Fund carries all investments at fair value, with the exception of the investments detailed in the paragraph below.

Note 1 Significant Accounting Policies (continued)

Principles of Consolidation (continued)

Operating entities are consolidated where the Fund (i) has an economic interest in excess of 50%; (ii) is deemed to have control over the significant operational and financial decisions of the entity; and (iii) where the purpose of the operating entity is to provide services to the Fund rather than realize a gain on the sale of the investment. This consolidation exemption, as outlined in section 7.10 of the Guide, currently applies to the Fund's holdings in Polygon, LCM , Hawke's Point and TCIP (the "subsidiaries").

These consolidated financial statements include the accounts of the Fund and its subsidiaries (collectively, the"Group"). All significant intercompany balances and transactions have been eliminated on consolidation.

During the year, the Fund purchased an 85% economic stake in Equitix, an infrastructure asset management business. This investment does not meet requirement (iii) of the exemption outlined above and is therefore carried at fair value.

The Fund owns 23% of GreenOak, a real estate investment manager and certain of its affiliates. It does not meet any of the conditions of the exemption outlined above and is carried at fair value.

The Fund is the primary beneficiary of some securities which are considered variable interest entities ("VIE"). As the Fund is accounting for its investments at fair value in accordance with the accounting guidance in the AICPA Audit and Accounting Guide (2015): Investment Companies, all other investments in operating and non-operating entities are carried at fair value regardless of the level of control. Consolidation of such entities is not required.

At 31 December 2015, the fair value of these VIEs is approximately US$ 1,084.6 million (31 December 2014: US$ 1,227.4 million). These are non-recourse securities with no contingent liabilities where the Fund's maximum loss exposure is capped at the current carrying value.

Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are substantive.

The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. When the excess is negative, a bargain purchase gain is recognized immediately in the Consolidated Statements of Operations.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Share Based Employee Compensation

Share-based compensation expense for all equity settled share-based payment awards granted is determined based on the grant-date fair value. The Fund recognizes these compensation costs net of an estimated forfeiture rate, and recognizes compensation cost only for those shares expected to meet the service and non-market performance vesting conditions, on a straightline basis over the requisite service period of the award. These compensation costs are determined at the aggregate grant level for service-based awards and at the individual vesting tranche level for awards with performance conditions.

Note 1 Significant Accounting Policies (continued)

Share Based Employee Compensation (continued)

The Feeder issues the shares to the employees or providers of employment like services whereas the Fund receives the related services, and consequently the share based payments expense is recognized as a capital contribution. When the shares are actually issued the fair value of the shares, as determined at the time of the award, is debited against capital contribution and credited against share capital and share premium. Any associated stock dividends accrued on the original award are debited against retained earnings and credited to share capital and share premium using the value determined by the stock reference price at the date of each applicable dividend.

Fee Income

Fee income from management contracts is usually derived from either a base management fee, which is typically based on assets under management, or an incentive or performance fee which is linked to the performance of the applicable investment fund, account or vehicle. Base management fees are recognized on an accruals basis. Incentive or performance fees are recognized only when they have crystalized, which is usually on an annual or otherwise defined basis.

Dividend Income

Dividend income is recorded on the ex-dividend date, or when the information becomes available to the Fund.

Other Income

Where investment management, operating, infrastructure and administrative services are contractually provided to external entities outside of the consolidated Group, these services, along with any associated direct costs are invoiced and recorded as other income. This income is recognized on an accruals basis.

Expenses

Expenses are recognized in the Consolidated Statements of Operations on an accruals basis.

Taxation

Income taxes, Fund

The Fund is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged GBP 1,200 per annum (31 December 2014: GBP 600). The Fund has consolidated U.S. and UK operating businesses which are subject to federal and local taxes as applicable.

Income taxes, Corporate Entities

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that is no longer probable that the related tax benefit will be realized.

Note 1 Significant Accounting Policies (continued)

Income taxes, Corporate Entities (continued)

In accordance with ASC Subtopic 740-10 – Income Taxes – Overall, the Fund recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. There were no uncertain tax positions recognized at 31 December 2015 or 31 December 2014.

Dividend Expense

Dividend expense from shares are recognized in the Consolidated Statements of Changes in Net Assets.

Note 2 ASC 820, Fair Value Measurements

The Fund has adopted the provisions of "Fair Value Measurements" (ASC 820). ASC 820 defines fair value as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 820 also establishes a framework for measuring fair value and a three level hierarchy for fair value measurement based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability.

The three levels of the fair value hierarchy are described below:

- Level 1 - Quoted in active markets for identical investments.
- Level 2 - Prices determined using other significant observable inputs. These may include quoted prices for similar securities, interest rates, prepayments spreads, credit risk and others.
- Level 3 - Unobservable inputs. Unobservable inputs reflect assumptions market participants would be expected to use in pricing the asset or liability.

The following is a summary of investments by asset class, derivative financial instruments and level as of 31 December 2015 in valuing the Fund's assets and liabilities carried at fair value:

	Level 1 US$ MM	Level 2 US$ MM	Level 3 US$ MM	Total Fair Value US$ MM
CLO Equity Tranches	-	-	599.1	599.1
CLO Mezzanine	-	1.7	-	1.7
Loans	-	3.0	141.5	144.5
Unlisted Stock	-	10.0	123.9	133.9
Forward foreign exchange contracts (asset)	-	10.8	-	10.8
Forward foreign exchange contracts (liability)	-	(0.7)	-	(0.7)
Credit default swaps	-	1.0	-	1.0
Equity total return swaps (asset)	-	7.6	-	7.6
Investments measured at Net Asset Value	-	-	-	485.5
	-	33.4	864.5	1,383.4

During the year ended 31 December 2015, an unlisted stock transferred from level 3 to level 2 as a result of a regularly published price becoming available. Additionally, under FASB 2015-07, the Fund evaluated the guidance to exclude certain investments from fair value hierarchy and elected to adopt the new disclosure "Investments measured at Net Asset Value". The 2014 comparatives have been adjusted to conform.

Note 2 ASC 820, Fair Value Measurements (continued)

The following is a summary of investments by asset class, derivative financial instruments and level as of 31 December 2014 in valuing the Fund's assets and liabilities carried at fair value:

	Level 1 US$ MM	Level 2 US$ MM	Level 3 US$ MM	Total Fair Value US$ MM
CLO Equity Tranches	-	-	816.9	816.9
CLO Mezzanine	-	1.7	-	1.7
Loans	-	22.1	6.4	28.5
Unlisted Stock	-	-	69.3	69.3
Listed Stock	29.4	-	-	29.4
Interest rate swaptions	-	0.6	-	0.6
Forward foreign exchange contracts (asset)	-	11.5	-	11.5
Forward foreign exchange contracts (liability)	-	(1.5)	-	(1.5)
Credit default swaps	-	(4.1)	-	(4.1)
Equity total return swaps (asset)	-	7.1	-	7.1
Equity total return swaps (liability)	-	(0.2)	-	(0.2)
Investments measured at Net Asset Value	-	-	-	410.4
	29.4	37.2	892.6	1,369.6

Investments measured at Net Asset Value:
The Fund holds investments in investment funds and vehicles which have been valued using the net asset value of the underlying investment companies. This approach is known as the "practical expedient" and is in accordance with ASC820. In addition, in line with issued guidance, the Fund has opted to remove these investments from disclosure within the levelling hierarchy. See Note 27 for more detail.

As at 31 December 2015, the Fund held US$ 485.5 million in such investments (31 December 2014: US$ 410.4 million) of which US$ 343.8 million was held in open ended hedge fund vehicles (31 December 2014: US$ 322.1 million). Given applicable notice, typically liquidity in these vehicles is such that up to 25% of the investment is available on a quarterly basis (subject to certain conditions), and the entire investment could be liquidated over four consecutive quarters. In addition, as at 31 December 2015, the Fund held investments in closed ended real estate investment funds and vehicles with a fair value of US$ 141.7 million (31 December 2014: US$ 88.3 million). These investments are typically held in structures where liquidity is primarily dependent upon the sooner of the liquidation of the underlying investments and the stated maturity of the vehicle. It is not uncommon for the expected maturity to exceed five years from the initial investment.

The following is a reconciliation of the Fund's assets in which significant unobservable inputs (Level 3) were used in determining fair value at 31 December 2015.

	CLO Equity Tranches US$ MM	Loans US$ MM	Unlisted Stock US$ MM	Total US$ MM
Balance at start of year	816.9	6.4	69.3	892.6
Purchases of investments	62.4	130.7	22.6	215.7
Proceeds from sale of investments	(6.5)	(6.4)	-	(12.9)
Transfers out of level 3	-	-	(10.0)	(10.0)
Realized (loss) / gain and change in unrealized (depreciation) / appreciation	(40.2)	10.8	42.0	12.6
Amortization	(233.5)	-	-	(233.5)
Balance at end of year	599.1	141.5	123.9	864.5

Note 2 ASC 820, Fair Value Measurements (continued)

The following is a reconciliation of the Fund's assets in which significant unobservable inputs (Level 3) were used in determining fair value at 31 December 2014.

	CLO Equity Tranches US$ MM	Loans US$ MM	Unlisted Stock US$ MM	Total US$ MM
Balance at start of year	1,120.4	11.1	28.4	1,159.9
Purchases of investments	84.3	-	2.4	86.7
Proceeds from sale of investments	(171.4)	(5.1)	-	(176.5)
Realized gain / change in unrealized appreciation	0.3	0.4	38.5	39.2
Amortization	(216.7)	-	-	(216.7)
Balance at end of year	816.9	6.4	69.3	892.6

Quantitative information about Level 3 Fair Value Measurements

Investments in securities	Balance at 31 December 2015 US$ MM	Valuation methodology	Unobservable inputs	Range
CLO Equity Tranches	599.1	Market standard model	See investments in CLO equity tranche investments	See below
Loans	141.5	Market standard model	Cost of financing for loan counterparty	LIBOR +6% - 12%
Unlisted Stock – Global Financial Real Estate Investment Manager	70.0	Market standard model	Enterprise Value/EBITDA	12x
Unlisted Stock – UK Infrastructure Asset Manager	32.4	Market standard model	Discounted Cash Flows	9.5%
		Market standard model	Enterprise Value/EBITDA	5.8x
Unlisted Stock – U.S. Private Equity Investments	21.5	Cost adjusted by available data points	See unlisted stock	

Investments in securities	Balance at 31 December 2014 US$ MM	Valuation methodology	Unobservable inputs	Range
CLO Equity Tranches	816.9	Market standard model	See investments in CLO equity tranche investments	See below
Loans	6.4	Market standard model	Cost of financing for loan counterparty	3 - 6%
Unlisted Stock – Global Financial Real Estate Investment Manager	66.5	Market standard model	Price / earnings ratios Valuation as % of assets under management	7 - 11x 5.7 - 9.0%
Unlisted Stock – Norwegian Private Placement	2.8	Broker marks	Discount to broker marks	10%

Note 2 ASC 820, Fair Value Measurements (continued)

The fair values of the level 3 investments are sensitive to the inputs used in the valuation process. The CLO equity valuations are sensitive to a number of different inputs to the third party model. For example, if the default rate assumption inputs were increased, assuming all other inputs were held constant, then the fair value would decrease and vice versa.

Equally, if the discount rates applied to projected cash flows were increased, and similarly assuming all other inputs were held constant, then the fair value would also decrease and vice versa.

Loans
The loan investments relate to two tranches of loans advanced to Equitix as part of its acquisition by the Fund. A mezzanine loan of £7.7 million (US$ 11.5 million) was advanced at a rate of LIBOR+6%.

Loan notes with a notional value of £79.5 million (US$ 124.9 million) and a coupon of 12% were also issued by Equitix to the Fund as part of the transaction. Both the loan notes and the mezzanine loan have been valued at fair value plus accrued interest.

Unlisted stock
The unlisted stock investment includes a 23% stake in GreenOak which had a fair value of US$ 70.0 million at 31 December 2015 (31 December 2014: US$ 66.5 million). The primary metric utilized to determine this valuation was an Enterprise Value/EBITDA multiple of 12x adjusted EBITDA. The valuation calculation was prepared by a third party valuation specialist. Given the methodology utilized, if the multiple applied to the adjusted EBITDA was decreased then the fair value would also decrease.

It also includes the Fund's investment in the equity of Equitix. Both a Discounted Cash Flow ("DCF") and an Enterprise Value/EBITDA multiple were utilised by a third party valuation specialist to determine a valuation of US$ 32.4 million. This assumed that the Fund's economic interest in Equitix is 74.8%, which is the level that it is expected to decline to over time, with management owning the remainder. For the DCF a discount rate of 9.5% was applied to determine the enterprise value before a 15% discount for lack of liquidity was applied. The Enterprise Value/EBITDA multiple was 5.8x. As with the GreenOak valuation, if the multiple applied to the EBITDA decreased then so would the fair value. If the discount rate applied to future cash flows was increased then the fair value would decrease.

The unlisted stock investment also includes two private equity investments and these have been valued by reference to recently available data points. For the first investment this includes an implied valuation by reference to a new round of funding. For the second investment this includes a valuation document produced for the company by an investment bank.

CLO equity tranches

As disclosed in Note 1, a mark to model approach has been adopted to determine the value of the equity tranche CLO investments. The model contains certain assumption inputs that are reviewed and adjusted as appropriate to factor in how historic, current and potential market developments (examined through, for example, forward-looking observable data) might potentially impact the performance of these CLO equity investments. Since this involves modeling, among other things, forward projections over multiple years, this is not an exercise in recalibrating future assumptions to the latest quarter's historical data.

Subject to the foregoing, when determining the U.S. GAAP-compliant fair value of the CLO equity investments, the Fund seeks to derive a value at which market participants could transact in an orderly market and also seeks to benchmark the model inputs and resulting outputs to observable market data when available and appropriate. Although seeking to utilize, where possible, observable market data, for certain assumptions the Investment Manager may be required to make subjective judgements and forward-looking determinations, and its experience and knowledge is instrumental in the valuation process.

Note 2 ASC 820, Fair Value Measurements (continued)

CLO equity tranches (continued)

As at 31 December 2015, some of the modeling assumptions used are disclosed below. The modeling assumptions disclosed below are a weighted average (by U.S. Dollar amount) of the individual deal assumptions, aggregated by geography (i.e. U.S. and European). Each individual deal's assumptions may differ from this geographical average and vary across the portfolio.

U.S. CLO equity tranche investments –

	31 December 2015	**31 December 2014**
Constant Annual Default Rate ("CADR")	Approximately 2.2%, which is 1.0x the original Weighted Average Rating Factor ("WARF") derived base-case default rate for the life of the transaction.	Approximately 2.2%, which is 1.0x the original Weighted Average Rating Factor ("WARF") derived base-case default rate for the life of the transaction.
Recovery Rate	73%, which is 1.0x of the original base-case assumed weighted-average recovery rate, for the life of the transaction.	73%, which is 1.0x of the original base-case assumed weighted-average recovery rate, for the life of the transaction.
Prepayment Rate	20% p.a., the original base-case prepayment rate with a 0% prepayment rate on bonds throughout the life of the transaction.	20% p.a., the original base-case prepayment rate with a 0% prepayment rate on bonds throughout the life of the transaction.
Reinvestment Price and Spread	Assumed reinvestment price is par for the life of the transaction, with an effective spread over LIBOR of approximately 375 bps on broadly U.S. syndicated loan deals which are still in their reinvestment periods. Middle Market loan deals are all through their reinvestment period.	Assumed reinvestment price is par for the life of the transaction, with an effective spread over LIBOR of approximately 294 bps on broadly U.S. syndicated loan deals which are still in their reinvestment periods. Middle Market loan deals are all through their reinvestment period.

European CLO equity tranche investments -

	31 December 2015	**31 December 2014**
Constant Annual Default Rate ("CADR")	Approximately 2.1%, which is 1.0x the original WARF derived base-case default rate for the life of the transaction.	Approximately 2.1%, which is 1.0x the original WARF derived base-case default rate for the life of the transaction.
Recovery Rate	68%, which is 1.0x of the original base-case assumed weighted-average recovery rate, for the life of the transaction.	68%, which is 1.0x of the original base-case assumed weighted-average recovery rate, for the life of the transaction.
Prepayment Rate	20% p.a., the original base-case prepayment rate with a 0% prepayment rate on bonds throughout the life of the transaction.	20% p.a., the original base-case prepayment rate with a 0% prepayment rate on bonds throughout the life of the transaction.
Reinvestment Price and Spread	All European deals are through their reinvestment period.	All European deals are through their reinvestment period.

When determining the fair value of the equity tranches a discount rate is applied to the expected future cash flows derived from the third party valuation model. The discount rate applied to those future cash flows reflects the perceived level of risk that would be used by another market participant in determining fair value. In determining the discount rates to use an analysis of the observable risk premium data as well as the individual deal's structural strength and credit quality is undertaken.

Note 2 ASC 820, Fair Value Measurements (continued)

As at 31 December 2015, for the pre-2010 vintage U.S. equity tranches, the Fund applied a 12.0% discount rate to the expected future cashflows (31 December 2014: 12.0%). The European equity tranches are all discounted at 13.0% (31 December 2014: 13.0%). For both U.S. and European deals the aforementioned discount rates represent a significant spread over observed yields on the applicable BB-rated CLO tranches for each geographical region at that date.

For the post-2010 vintage U.S. equity tranches, an increased level of transparency over certain data points and metrics associated with such deals has enabled the determination of a generic discount rate for this sub-asset class. As at 31 December 2015, a discount rate of 11.0% is applied to the future projected cash flows of seasoned U.S. CLO 2.0 deals.

More recently-issued U.S. CLO 2.0 deals (within 12 months of deal closing) continue to be discounted at their respective deal IRRs. The weighted average IRR for deals discounted using deal specific IRRs was 15.6% at 31 December 2015 (31 December 2014: 13.1%). The IRRs for such deals ranged from 14.9% to 16.1% (31 December 2014: 12.1% to 14.1%) and the fair value of deals discounted using deal specific IRRs was 9.8% (31 December 2014: 9.9%) of the CLO equity portfolio by fair value.

Note 3 Derivatives

The fund uses derivative financial instruments to either gain new economic exposure to an underlying asset or to hedge an existing economic exposure.

As at 31 December 2015, the Fund had a number of forward foreign exchange contracts in place with original maturities ranging from three months to approximately five years. The Fund typically agrees to sell foreign currency and buy U.S. Dollars in order to hedge long non-U.S. Dollar investment positions. The total open balance as at the end of the year was net long U.S. Dollars US$ 323.0 million, having executed 73 transactions during the year at an average notional of US$ 10.5 million. (31 December 2014: net long U.S. Dollars US$ 206.9 million, having executed 59 transactions during the year at an average notional of US$ 22.2 million).

The Fund enters into swaps and CFDs with financial institutions. The Fund utilizes these swap or CFD agreements as an efficient means of hedging or of obtaining exposure to certain underlying investments. The Fund is subject to the risk of the inability or refusal to perform with respect to such contracts on the part of counterparties trading with it, as well as risks relating to the creditworthiness of the swap counterparty, market, liquidity, interest rate, fx and operations risk.

Through swaps or CFDs the Fund can in effect be exposed to increases or decreases in the value of an equity or index or to decreases or increases in the value of a related equity or index. Depending on how they are used, the agreements may increase or decrease the overall volatility of the portfolio and performance of the Fund. During the year to 31 December 2015, the Fund had a weighted average notional exposure of US$ 215.2 million through swaps referencing underlying individual equity positions (31 December 2014: US$ 259.2 million).

The Fund enters into credit default swaps in order to hedge certain risks or economic exposures. As at 31 December 2015, the Fund had single name credit default protection of US$ 65.2 million notional with an average notional of US$ 16.3 million, having executed seven transactions during the year. By comparison as at 31 December 2014, the Fund had purchased single name credit default protection of US$ 151.3 million notional with an average notional of US$ 15.1 million and having executed 10 transactions during the year.

Note 4 Financial Instruments with Off-Balance Sheet and Concentration of Credit Risk

The Fund holds certain investments in CLO equity tranches which consist of interests in and / or economic exposures to limited recourse securities that are subordinated in right of payment and ranked junior to other securities that are secured by the same pool of assets. In the event of default by an issuer in relation to such investments, holders of the issuer's more senior securities will be entitled to payments in priority to the Fund.

Note 4 Financial Instruments with Off-Balance Sheet and Concentration of Credit Risk (continued)

Some of the Fund's investments may also have structural features that divert payments of interest and / or principal to more senior classes secured by the same pool of assets when the delinquency or loss experience of the pool exceeds certain levels. This may lead to interruptions in the income stream that the Fund anticipates receiving from its investment portfolio. To the extent that actual losses on the underlying collateral exceed the level of assumed losses used to determine the fair value of the investment, the value of the investment may be reduced.

The Fund has also made investments into certain collective investment schemes. These include real estate investment vehicles and hedge funds which have exposure to securities including equities, convertible bonds and derivatives. These underlying investments may be in securities or assets which are illiquid and / or in different geographies around the world. These investments may be subject to counterparty risk. Capital invested into the investment vehicles may be subject to lock ups and gates, or subject to the realization of the underlying investments and assets. The Fund has also made investments into equities which are directly held. These investments are subject to market and liquidity risk.

The Fund is exposed to credit risk through its investment in GreenOak investment funds and bankruptcy or insolvency of GreenOak may cause the Fund's rights with respect to the investment funds to be delayed or limited.

The Fund is also exposed to Equitix through a combination of the mezzanine loan, loan notes and equity investment that it holds with respect to this entity. The loans are subordinate to another third party loan and in the event of bankruptcy or insolvency of Equitix this may impact upon the amount which is recoverable with respect to these loans. The maximum aggregate exposure to Equitix is disclosed in Note 6.

The Fund is exposed to counterparty risk in a number of ways. Some of the Fund's assets, including cash and cash equivalents are held by a custodian and other financial institutions, and the Fund is exposed to the credit risk of these counterparties. The Fund has also entered into derivative transactions which results in credit exposure to the applicable counterparties. Concentration risk could arise as a result, notwithstanding the fact that the derivative counterparties are major financial institutions. This risk is monitored on an ongoing basis and is managed through collateral management including master netting agreements.

The Fund is required to disclose the impact of offsetting assets and liabilities represented in the statements of assets liabilities to enable evaluation of the effect or potential effect of netting arrangements on its financial position for recognized assets and liabilities.

As of 31 December 2015, the Fund holds financial instruments and derivative instruments that are eligible for offset in the statements of assets and liabilities and are subject to a master netting arrangement. The master netting arrangement allows the counterparty to net any collateral held on behalf of the Fund or liabilities or payment obligations of the counterparty against any liabilities or payment obligations of the Fund to the counterparty.

Note 4 Financial Instruments with Off-Balance Sheet and Concentration of Credit Risk (continued)

The following table provides disclosure regarding the potential effect of offsetting of recognized assets presented in the statement of assets and liabilities:

31 December 2015						
Description	Gross Amount of Recognized Assets US$ MM	Gross Amounts Offset in the Statements of Assets and Liabilities US$ MM	Net Amounts Presented in the Statements of Assets and Liabilities US$ MM	Financial instruments eligible for netting US$ MM	Cash Collateral received/ posted US$ MM	Net Amount US$ MM
Assets						
Derivatives	19.4	-	19.4	(0.7)	-	18.7
Total	19.4	-	19.4	(0.7)	-	18.7
Liabilities						
Derivatives	0.7	-	0.7	(0.7)	-	-
Total	0.7	-	0.7	(0.7)	-	-

31 December 2014						
Description	Gross Amount of Recognized Assets US$ MM	Gross Amounts Offset in the Statements of Assets and Liabilities US$ MM	Net Amounts Presented in the Statements of Assets and Liabilities US$ MM	Financial instruments eligible for netting US$ MM	Cash Collateral received/ posted US$ MM	Net Amount US$ MM
Assets						
Derivatives	19.2	-	19.2	(2.1)	-	17.1
Total	19.2	-	19.2	(2.1)	-	17.1
Liabilities						
Derivatives	5.8	-	5.8	(2.1)	(3.7)	-
Total	5.8	-	5.8	(2.1)	(3.7)	-

Note 5 Management Contracts

During 2012, the Fund acquired TFG Asset Management L.P. and certain of its affiliates. Of the assets that were purchased, intangible assets consisting of management contracts for hedge funds and private equity funds were identified.

Note 5 Management Contracts (continued)

These are tested for impairment on a regular basis and are amortized over an estimated useful life as detailed below.

31 December 2015

	Weighted average amortization period	Gross carrying amount US$ MM	Weighted average outstanding amortization period	Accumulated amortization US$ MM	Net carrying amount US$ MM
Amortizing intangible assets:					
Management contracts – hedge funds	10 years	34.3	6 years 10 months	10.9	23.4
Management contracts – private equity	3 years	10.2	-	10.2	-
Total		44.5		21.1	23.4

31 December 2014

	Weighted average amortization period	Gross carrying amount US$ MM	Weighted average outstanding amortization period	Accumulated amortization US$ MM	Net carrying amount US$ MM
Amortizing intangible assets:					
Management contracts – hedge funds	10 years	34.3	7 years 10 months	7.4	26.9
Management contracts – private equity	3 years	10.2	10 months	7.4	2.8
Total		44.5		14.8	29.7

Aggregate amortization expense for amortizing intangible assets was US$ 6.3 million for the year ended 31 December 2015 (31 December 2014: US$ 6.8 million). Estimated annual amortization expense for the next seven years is US$ 3.4 million in years 2016 to 2021 and US$ 3.0 million in 2022.

Note 6 Equitix

On 2 February 2015, the Fund completed the acquisition of Equitix for a total enterprise value of £159.5 million (US$ 239.9 million). After giving effect to all aspects of the sale and purchase agreement, the total consideration was £160.4 million (US$ 241.2 million) with the Fund directly funding £88.3 million (US$ 132.8 million) and the remainder being funded through an external loan before fees of £60.0 million (US$ $92.3m) and a rollover of certain purchase consideration by the Equitix management team.

The Fund's investment is structured through the holding of a mezzanine loan, 12% 'A' loan notes and an equity stake. Although the Fund currently effectively receives 85% of the economics through the percentage of loan notes that it holds, upon repayment of the loan notes its effective economic equity share would be expected to decline to 74.8%, with the Equitix management team owning the balance.

The purchase agreement also provided for some additional contingent consideration of up to £15.0 million, payable in early 2017 and subject to Equitix outperforming certain elements of its business plan. This contingent payment, should it become payable, will be contractually due from Equitix rather than the Fund and therefore is not an obligation of the Fund.

Note 6 Equitix (continued)

	31 Dec 2015 Cost US$ MM	31 Dec 2015 Fair Value US$ MM
Loan notes	119.7	130.1
Mezzanine loan	10.7	11.4
Equity	2.4	32.4
Total	132.8	173.9

Note 7 GreenOak

The Fund owns a 23% interest in GreenOak which it carries at fair value.

The following table outlines the movement in fair value of the investment in GreenOak.

	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
Opening fair value	66.5	28.4
Change in unrealized appreciation	3.5	38.1
Closing fair value	70.0	66.5

The Fund provided GreenOak with working capital of up to US$ 10.0 million in the form of a seven year non-recourse loan facility. Under the terms of this facility, the first US$ 5.0 million earned an annual interest rate of 3% and the balance earned an annual interest rate of 6%. During the year, GreenOak repaid the remaining balance on the loan.

The following table outlines the movement in the fair value of the unsecured working capital facility provided by the Fund to GreenOak.

	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
Opening fair value	6.4	11.1
Unrealized appreciation	0.1	0.4
Paydown of loan	(6.5)	(5.1)
Closing fair value	-	6.4

Note 8 Cash and Cash Equivalents

	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
Cash and current deposits with banks	412.9	372.7
Foreign currency cash with banks (cost: US$ 28.3 million (31 December 2014: US$ 30.3 million))	27.5	29.3
	440.4	402.0

Of this cash balance, US$ 225.0 million relates to amounts loaned to counterparties and secured against collateral through tri-party agreements (31 December 2014: US$ Nil). These all have at least overnight liquidity. In addition, approximately US$ 5.5 million was held with respect to certain capital requirements in regulated entities (31 December 2014: US$ 5.5 million).

Note 9 Amounts Due From Brokers

The amounts due from brokers is cash pledged as collateral on the forward contracts and equity swaps. As at 31 December 2015, the collateral cash balance with UBS AG was US$ 10.7 million (31 December 2014: US$ 2.0 million), BNP Paribas was US$ 10.3 million (31 December 2014: US$ 13.3 million) Morgan Stanley was US$ 1.4 million (31 December 2014: US$ 1.4 million) and Bank of America Merrill Lynch was US$ 37.5 million (31 December 2014: US$ 35.4 million).

Note 10 Other Receivables

	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
Accrued fee income	10.6	12.1
Cost recovery receivable	-	2.2
Amounts due from affiliated funds	-	5.8
Prepayments	2.3	1.9
Rent deposits on properties	1.6	1.7
Other receivables	7.0	9.1
	21.5	32.8

Note 11 Other Payables and Accrued Expenses

	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
Employee costs	39.6	41.1
Amounts owing to former Polygon partners (see Note 23)	3.5	3.5
Other operating and administrative expenses	5.4	5.9
	48.5	50.5

Note 12 Share Capital

Authorized

The Fund has an authorized share capital of US$ 1.0 million divided into 10 voting shares, having a par value of US$ 0.001 each and 999,999,990 non-voting shares (which are the "Shares" referred to herein), having a par value of US$ 0.001 each.

Voting Shares

All of the Fund's voting shares are issued at par and are beneficially owned by the Voting Shareholder, a non-U.S. affiliate of the Investment Manager. The voting shares will be the only shares entitled to vote for the election of Directors and on all other matters put to a vote of shareholders, subject to the limited rights of the Shares described below. The voting shares are not entitled to receive dividends.

Non-Voting Shares

The Shares carry a right to any dividends or other distributions declared by the Fund. The Shares are not entitled to vote on any matter other than limited voting rights in respect of variation of their own class rights.

Dividend Rights

Dividends may be paid to the holders of Shares at the sole and absolute discretion of the Directors. The voting shares carry no rights to dividends.

Note 12 Share Capital (continued)

Share Transactions

	Voting Shares No.	Shares No. MM	Shares US$ MM
Shares in issue at 31 December 2013	10	98.9	0.1
Issued in lieu of stock dividend	-	0.6	-
Issued through release of tranche of Escrow Shares	-	1.2	-
Shares purchased during the year	-	(4.9)	-
Shares in issue at 31 December 2014	10	95.9	0.1
Issued in lieu of stock dividend	-	1.2	-
Issued through release of tranche of Escrow Shares	-	4.8	-
Shares purchased during the year	-	(6.0)	-
Shares in issue at 31 December 2015	10	95.9	0.1

Treasury Shares

The Fund has entered into a joint arrangement with the Feeder through the establishment of TFG Holdings I. The Fund may transfer, and has transferred, Shares previously held in a Treasury Account to TFG Holdings I. Where this occurs the status of the Shares is unchanged from an accounting perspective and they are not included in the Shares outstanding on the Consolidated Statements of Assets and Liabilities.

On 30 November 2007, the Feeder announced the implementation of a share repurchase program of their outstanding Shares and this was renewed on several occasions. As at 31 December 2015, there was no share repurchase program in place.

When the program was in operation, the Fund undertook to repurchase an identical number of its own Shares from the Feeder as and when it made these repurchases in the open market. The Fund matched the price per Share paid by the Feeder. The Shares are held in a Treasury Account or in TFG Holdings I allowing them to potentially be resold back to the Feeder if it resells its own shares back into the market at a later date. Whilst they are held by the Fund (whether directly or via TFG Holdings I), the Shares are neither eligible to receive dividends nor are they included in the Shares outstanding on the Statements of Assets and Liabilities.

On 15 December 2015, the Feeder and the Fund announced that under the terms of a "modified Dutch auction" (the "Tender Offer"), the Fund had accepted for purchase approximately 6.0 million Feeder non-voting shares at a purchase price of US$ 10.00 per share and an aggregate cost of US$ 60.9 million, including applicable fees and expenses. The Feeder exchanged an equivalent number of Fund Shares for the Feeder shares which had been repurchased. Of those 6.0 million Shares, 0.35 million Shares were transferred to TFG Holdings I and the remainder were cancelled.

As at 31 December 2015, 17.0 million Shares are held in TFG Holdings I (31 December 2014: 16.6 million) and 12.8 million Shares in the Treasury Account (31 December 2014: 12.8 million) with an aggregate attributed cost of US$ 264.6 million (31 December 2014: US$ 261.0 million).

Escrow Shares

As part of the acquisition to acquire TFG Asset Management (see Note 22), the Aggregate Consideration of 11.7 million Feeder shares was moved to an escrow account where they were to be held before being released in conjunction with the agreed vesting schedule, subject to certain forfeiture conditions. Upon the release of the Feeder shares, the Fund agreed to issue an identical number of Shares to the Feeder. During the year 4.7 million Shares were issued to the Feeder as a result of an equivalent number of Feeder Shares being released from escrow. Of these approximately 4.0 million Shares were deemed to be in relation to the original Feeder escrow shares, and a value of US$ 33.8 million was debited against Capital Contribution, using the transaction share price of US$ 8.43.

Note 12 Share Capital (continued)

Escrow Shares (continued)

In addition, approximately 0.7 million shares were deemed to be related to the stock dividends awarded on the original shares released and an amount of US$ 7.5 million was released against Retained Earnings, based on the stock reference price at each applicable dividend date.

Additionally the Feeder opened a second escrow account during 2015. This is intended to hold Shares which will form part of a long term incentive plan for certain employees of TFG Asset Management and during 2015, 5.65 million shares were moved into this account. As and when these Feeder shares are released, the Fund has agreed to issue an identical number of Shares to the Feeder.

Other Share Transactions

	Treasury Shares	Shares held in TFG Holdings I
	Shares	Shares
	No. MM	No. MM
Shares brought forward at 31 December 2013	7.9	16.6
Shares purchased during the year	4.9	-
Shares at 31 December 2014	12.8	16.6
Shares purchased during the year	-	0.4
Shares at 31 December 2015	12.8	17.0

Note 13 Share Premium

	31 Dec 2015	31 Dec 2014
	US$ MM	US$ MM
Balance at start of year	888.6	922.4
Premium arising from issuance of Shares	53.4	17.1
Discount arising from purchase of Shares	(60.9)	(50.9)
Balance at end of year	881.1	888.6

Note 14 Dividends

	31 Dec 2015	31 Dec 2014
	US$ MM	US$ MM
Quarter ended 31 December 2013 of US$ 0.15 per share	-	14.8
Quarter ended 31 March 2014 of US$ 0.15 per share	-	14.1
Quarter ended 30 June 2014 of US$ 0.155 per share	-	14.6
Quarter ended 30 September 2014 of US$ 0.155 per share	-	14.9
Quarter ended 31 December 2014 of US$ 0.1575 per share	15.1	-
Quarter ended 31 March 2015 of US$ 0.1575 per share	15.2	-
Quarter ended 30 June 2015 of US$ 0.1625 per share	15.7	-
Quarter ended 30 September 2015 of US$ 0.1625 per share	16.5	-
	62.5	58.4

The fourth quarter dividend of US$ 0.165 per share was approved by the Directors on 25 February 2016 and has not been included as a liability in these consolidated financial statements.

The Fund also pays a dividend to the Feeder that is sufficient to pay their incentive fee liability. In the year ended 31 December 2015, US$ 35.2 million (31 December 2014: US$ 51.5 million) was paid.

Note 15 Retained Earnings

	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
Balance at start of year	914.8	906.6
Net income resulting from operations for the year	167.0	119.5
Dividends paid to shareholders	(62.5)	(58.4)
Stock dividends on Shares released from Escrow	(7.5)	(1.4)
Dividends paid to Feeder	(35.2)	(51.5)
Balance at end of year	976.6	914.8

Note 16 Capital contribution

	Note	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
Balance at start of year		31.4	17.6
Capital contribution relating to share based compensation	1	22.0	23.1
Release of Feeder Escrow Shares		(33.8)	(9.3)
Balance at end of year		19.6	31.4

Note 17 Income and Deferred Tax Expense

Income tax for the year ended 31 December 2015 and 31 December 2014 consists of:

Year ended 31 December 2015:	Current US$ MM	Deferred US$ MM	Total US$ MM
U.S. Federal and local	12.0	0.6	12.6
UK	(0.7)	(1.8)	(2.5)
	11.3	(1.2)	10.1

Year ended 31 December 2014:	Current US$ MM	Deferred US$ MM	Total US$ MM
U.S. Federal and local	14.7	(3.1)	11.6
UK	1.7	(0.7)	1.0
	16.4	(3.8)	12.6

US$ 5.8 million of current tax was payable at the end of the year (31 December 2014: US$ 2.9 million) with US$ Nil receivable (31 December 2014: US$ 0.6 million).

Tax Rate Reconciliation

Income tax expense was US$ 10.1 million for the year ended 31 December 2015 (31 December 2014: US$ 12.6 million) and differed from the amounts computed by applying the U.S. Federal income tax of 35% to pretax increase in the net assets as a result of the following:

	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
Net increase in operations before tax	177.1	132.1
Computed "expected" tax expense at 35% (2014: 35%)	62.0	46.2
Deduction in income taxes resulting from:		
Income not subject to U.S. tax	(55.1)	(37.7)
State and local income taxes	3.2	4.1
Total income and deferred tax expense	10.1	12.6

Note 17 Income and Deferred Tax Expense (continued)

Deferred Tax

	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
Deferred tax assets		
Employee compensation payments	9.2	10.0
Loss carried forward	-	-
Total deferred tax assets	9.2	10.0
Deferred tax liabilities		
Undistributed earnings	0.8	0.8
Intangible assets	5.8	7.8
Total deferred tax liabilities	6.6	8.6
Net deferred tax assets	2.6	1.4

Deferred tax assets include US$ 9.2 million (31 December 2014: US$ 10.0 million) relating to amounts accrued for employee compensation in 2015 which will only be an allowable expense in 2016 for tax purposes.

US$ 5.8 million (31 December 2014: US$ 7.8 million) is being recognized as a deferred tax liability due to the amortization on management contracts being a disallowable expense for tax purposes. This will be released over time as the management contracts are amortized. US$ 0.8 million has also been recognized as a liability with respect to applicable undistributed earnings at a withholding rate of 5%.

Note 18 Interest Income

	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
Debt securities – CLO equity tranches and mezzanine tranches	119.5	150.5
Debt securities – Loans	0.6	1.3
Debt securities – Unsecured loans	14.4	0.4
Cash and other	0.2	0.3
	134.7	152.5

Note 19 Fee Income

	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
Management fees		
CLO	30.3	33.1
Hedge Funds and private equity	25.6	28.5
Performance fees	14.3	19.5
	70.2	81.1

CLO management fee income generally comprises senior and subordinated fees and in aggregate these fees currently range from 25 bps to 50 bps per annum of collateral under management. In addition to fee income earned on CLOs directly managed it also includes fee income derived from a number of one-off and recurring fee sharing arrangements with third parties. In the year to 31 December 2015 these third party fees generated US$ 8.6 million (31 December 2014: US$ 11.7 million).

Hedge fund management fees charged to external investors are typically 150 bps of net assets under management and depending upon the applicable fund and share class certain other expenses may also be recovered. Management fees paid in connection with the private equity style vehicle are either 200 bps of net assets under management or a fixed declining management fee depending on the applicable class.

Note 19 Fee Income (continued)

Performance or incentive fees may be earned on hedge fund vehicles contingent upon the terms of each vehicle and the share class where applicable. They may also be earned through management of CLO vehicles once the vehicle has generated a specified return for the equity, or subordinated, tranche. During the year, such fees totaling US$ 14.3 million were earned (31 December 2014: US$ 19.5 million).

Where the Fund invests in Polygon hedge fund or other investment vehicles, it is able to invest at a preferred level of fees. The fees received by such affiliated managers from the Fund's investment are included and recognized in fee income reported in the Fund's Consolidated Statements of Operations. During the year, these fee income amounts were US$ 4.4 million of management fees (31 December 2014: US$ 4.3 million) and US$ 1.8 million of performance fees (31 December 2014: US$ 1.8 million). The Fund also invests on preferred fee terms with its other affiliated asset managers (i.e. LCM and GreenOak).

Where the Fund is seeding an investment vehicle or otherwise supporting its development, the vehicle's investment manager may also recharge certain additional costs or fee equivalents, to the Fund's investment in that vehicle. In 2015 the amount of fee equivalents recharged under these arrangements by Polygon hedge fund managers was US$ 6.5 million (2014: US$ 7.0 million).

Note 20 Other income

These include costs which are allocated to, and recovered from, the Investment Manager, GreenOak and Polygon Private Investment Partners LP pursuant to applicable separate services agreements, as well as the recovery of certain premises related costs from third party tenants.

See Note 24 for a full explanation of the cost allocation methodology as well as the amounts charged to each of the related parties.

	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
Employee costs	12.1	16.4
Legal and professional fees	0.3	0.4
Technology	1.6	2.5
Premises	2.5	3.3
Other	0.8	1.0
	17.3	23.6

Note 21 Other operating and administrative expenses

	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
Premises	8.9	9.5
Technology	6.0	6.3
Other	6.3	6.0
	21.2	21.8

Note 22 Share Based Employee Compensation

On 28 October 2012, TFG Asset Management L.P. and certain of its affiliates were acquired in exchange for consideration of approximately 11.7 million non-voting shares of the Feeder to the sellers (the "Aggregate Consideration").

Note 22 Share Based Employee Compensation (continued)

The Aggregate Consideration is held in escrow (along with accrued stock dividends), by the escrow agent pursuant to the terms of the escrow agreement. The first tranches were released in 2013, 2014 and 2015 with the remainder to be released over the period 2016 and 2017.

Under ASC 805 - Business Combinations ("ASC 805") these shares were treated as payment for post combination services rather than upfront consideration. The Fund recognizes the individual compensation costs on a straight line basis over the relevant service period of each award if the vesting performance conditions are met. These are reflected in the Consolidated Statements of Operations as share based employee compensation and through Equity as a separate reserve. The charge for the year ended 31 December 2015 amounted to US$ 22.0 million (31 December 2014: US$ 23.1 million).

The table below shows the number of Feeder shares which are currently expected to vest over the period to 2017, including accrued stock dividends up to the end of December 2015. These shares are all entitled to any future stock dividends prior to their release from escrow and so the actual amount of shares vesting each year may be higher. Upon the release of the Feeder shares from escrow, the Fund will issue an identical number of Shares to the Feeder.

Vesting Schedule – Shares as at 31 December 2015

	Shares MM	US$ MM
2016	3.6	16.6
2017	3.0	12.6
	6.6	29.2

Vesting Schedule – Shares as at 31 December 2014

	Shares MM	US$ MM
2015	4.5	23.1
2016	3.4	16.6
2017	2.8	12.6
	10.7	52.3

Note 23 Contingencies and Commitments

On 16 September 2010, the Fund committed to GreenOak to provide a co-investment commitment of up to US$ 100.0 million into GreenOak investment vehicles. As at 31 December 2015, in relation to this particular co-investment commitment, GreenOak had given the Fund notice totalling US$ 79.5 million across multiple investment vehicles, of which US$ 51.2 million had actually been drawn down and funded (31 December 2014: US$ 40.2 million). In certain cases, the Fund has also made additional commitments outside of the co-investment agreement and in aggregate, the Fund has estimated total unfunded commitments of US$ 103.8 million in respect of GreenOak investment vehicles (31 December 2014: US$ 84.6 million). The total actual amount ultimately drawn may be lower than this estimated maximum amount.

Future minimum lease payments under noncancelable operating leases as of 31 December 2015 are:

	31 Dec 2015 US$ MM	31 Dec 2014 US$ MM
2015	-	5.5
2016	5.3	5.5
2017	5.5	4.8
2018	3.0	0.2
2019	2.8	-
2020	2.8	-
2021	2.8	-
2022	2.5	-
	24.7	16.0

Note 23 Contingencies and Commitments (continued)

During 2015, the amount paid with respect to such leases was US$ 5.4 million (31 December 2014: US$ 5.7 million).

Note 24 Related Party Transactions

The Feeder, a Guernsey based closed-ended investment company, invests substantially all of its assets in the Fund, and has the same Investment Manager as the Fund.

All fees and expenses of the Feeder and the Fund (including management fees), except for the incentive fees, are paid by the Fund and allocated to the Feeder. An incentive fee may be paid to the Investment Manager by the Feeder.

The remuneration for Directors shall be determined by resolution of the Voting Shareholder. Each of the Directors' annual fee is US$ 100,000 as compensation for service on the Boards of Directors of both the Feeder and the Fund. The Directors have the option to elect to receive shares in the Feeder instead of the quarterly fee.

With respect to the year ending 31 December 2015, Frederic Hervouet has elected to receive Shares and received 2,564 Shares in relation to the first quarter's fee, 2,354 Shares in relation to the second quarter's fee and 2,495 Shares in relation to the third quarter's fee. The number of Shares issued instead of the fee for the fourth quarter will be determined as part of the fourth quarter 2015 dividend process.

The Fund will pay the Directors' fees. Paddy Dear and Reade Griffith have waived their entitlement to a fee in respect of their services as Directors. The Directors are entitled to be repaid by the Fund for all travel, hotel and other expenses reasonably incurred by them in the discharge of their duties. None of the Directors has a contract with the Feeder or the Fund providing for benefits upon termination of employment.

The Voting Shareholder, which holds all of the voting shares, was an affiliate of Polygon and continues to be an affiliate of the Investment Manager. As a result of its ownership and the degree of control that it exercises, the Voting Shareholder will be able to control the appointment and removal of the Fund's and Feeder's Directors (subject to applicable law). Affiliates of the Voting Shareholder also control the Investment Manager and, accordingly, control the Fund's business and affairs.

TFG Asset Management L.P., including Polygon's asset management businesses and infrastructure platform and interests in LCM and GreenOak, were acquired on 28 October 2012 (the "Acquistion"). As part of the Acquisition, Reade Griffith and Paddy Dear, as founders of Polygon, were awarded consideration in non-voting shares of the Feeder, which vest between 2016 and 2017.

It was contractually agreed as part of the Acquisition that to the extent any annual compensation actually paid to each of Mr. Griffith and Mr. Dear in respect of his employment with the Fund exceeds an annual base salary of US$ 100,000, they would promptly return such excess amount to the Fund. During the year ended 31 December 2015 total compensation paid to them each in aggregate was US$ 100,000 (31 December 2014: US$ 100,000).

As at 31 December 2015, in connection with the Acquisition, US$ 3.5 million in aggregate is owed to Reade Griffith and Paddy Dear, directly or via an entity to which they may direct payment (31 December 2014: US$ 3.5 million). This payable primarily relates to the repayment of certain rent deposits funded through Polygon entities by Messrs Griffith and Dear before the Acquisition. Under the terms of the sale and purchase agreement relating to the Acquisition, Messrs Griffith and Dear retained the economic rights to such deposits.

Reade Griffith and Paddy Dear continue to hold membership interests in Polygon Global Partners LLP (the "UK Investment Manager" or "PGP LLP") which collectively entitle them to exercise all of the voting rights in respect of the UK Investment Manager. As part of the Acquisition, each of Mr. Griffith and Mr. Dear has agreed that he will (i) exercise his voting rights in a manner that is consistent with the best interests of the Fund and (ii) upon the request of the Fund, for nominal consideration, sell, transfer and deliver his membership interests in the UK Investment Manager to the Fund.

Note 24 Related Party Transactions (continued)

Reade Griffith and Paddy Dear also hold membership interests in Pace Cayman Holdco Limited ("Pace Holdco"), an entity through which the Fund ultimately owns its equity stake in Equitix. These membership interests collectively entitle them to exercise all of the voting rights in respect of Pace Holdco. Each of Mr. Griffith and Mr. Dear has agreed that he will (i) exercise his voting rights in a manner that is consistent with the best interests of the Fund and (ii) upon the request of the Fund, for nominal consideration, sell, transfer and deliver his membership interests in the Pace Holdco to the Fund.

Polygon Global Partners LLP and Polygon Global Partners LP (together the "Service Providers") provide operational, financial control, trading, marketing and investor relations, legal, compliance, administrative, payroll and employee benefits and other services to the Investment Manager in exchange for fees payable by the Investment Manager to the Services Providers. One of these entities, Polygon Global Partners LLP, which is authorized and regulated by the United Kingdom Financial Conduct Authority, also provides services to the Investment Manager relating to the dealing in and management of investments, arranging of deals and advising on investments. In addition, the Services Providers also provide certain operating, infrastructure and administrative services to GreenOak and Polygon Private Investment Partners LP, an affiliate of the Voting Shareholder, pursuant to applicable separate services agreements.

TFG Asset Management, through the Service Providers has implemented a cost-allocation methodology with the objective of allocating service-related costs, including to the Investment Manager. TFG Asset Management then charges fees for the services allocated on a cost-recovery basis that is designed to achieve full recovery of the allocated costs. In the year the amount recharged to the Investment Manager was US$ 13.9m (31 December 2014: US$ 16.4 million), GreenOak US$ 2.4 million (31 December 2014: US$ 5.4 million) and Polygon Private Investment Partners LP US$ 0.1 million (31 December 2014: US$ 0.1 million). As at 31 December 2015, the amount (payable) / receivable relating to these recharges was US$ (0.1) million (31 December 2014: US$ 2.1 million).

The Fund holds CLO equity investments in CLOs which are managed by LCM. During the year end it purchased a portion of the equity tranche in LCM XVIII at a cost of US$ 27.8 million and LCM XIX at a cost of US$ 34.6 million. In total, as at 31 December 2015, it held CLO equity tranche investments in 14 CLOs managed by LCM with a fair value of US$ 224.1 million (31 December 2014: US$ 208.3 million).

At 31 December 2015, the Fund held investments across several hedge funds managed by Polygon. These hedge funds employ investment strategies involving investing in equities, convertible bonds, credit and derivatives. As at 31 December 2015, the fair value of these investments was US$ 338.1 million (31 December 2014: US$ 315.9 million). The fees paid on these investments are disclosed as per Note 20.

The Fund owns a 23% equity interest in GreenOak. As part of the original transaction to acquire a share in GreenOak, the Fund provided a US$ 100.0 million coinvestment commitment and a US$ 10.0 million working capital loan commitment to GreenOak, with the Feeder issuing 3.9 million share options to the GreenOak founders. On 28 October 2012, as a result of the Acquisition the Fund increased its working capital loan commitment by an additional US$ 0.5 million by assuming the acquiree's remaining unfunded commitment. During 2015, the working capital loan was fully repaid.

The Fund has made investments across several real estate investment vehicles managed by GreenOak. As at 31 December 2015, these investments referenced real estate in the United States, Japan and Europe with a combined net asset value of US$ 115.4 million (31 December 2014: US$ 88.3 million). These investments are typically illiquid where the Fund will only receive distributions on liquidation of the investment vehicle's underlying assets and in some cases this may not be for several years. In addition, based on projected capital raised (subject to change), the Fund had estimated unfunded commitments of up to US$ 103.8 million with respect to the investment vehicles (31 December 2014: US$ 84.6 million).

Note 25 Other Matters

The Fund has recovered from insurers costs relating to shareholder derivative actions, details of which were referred to in note 25 of the 2014 Fund audited consolidated financial statements. During the year US$ 9.8 million was received (31 December 2014: US$ 1.0 million). The Fund does not expect to recover any further costs in relation to these actions.

Note 26 Subsequent Events

The Directors have evaluated the period up to 25 February 2016, which is the date that the financial statements were approved, and have concluded that there are no material events that require disclosure or adjustment to the financial statement.

Note 27 Recent changes to U.S. GAAP

In May 2015, the Financial Accounting Standards Board ("FASB") issued guidance to address diversity in practice related to how certain investments measured at net asset value ("NAV") are reported within the financial statement footnotes. The new guidance removes the requirement to categorise investments measured under the current NAV practical expedient within the fair value hierarchy for all investments. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV practical expedient.

Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The guidance will be effective in the first quarter of 2016 and is required to be applied retrospectively, although early adoption is permitted. The Fund has evaluated the effect of this guidance and has opted to early adopt with the results of this change being disclosed in Note 2.

In August 2014, the FASB issued guidance to address diversity in the accounting for differences in the measurement of the fair values of financial assets and liabilities of consolidated financing VIEs. The new guidance provides an alternative for consolidated financing VIEs to elect: (1) to measure their financial assets and liabilities separately under existing U.S. GAAP for fair value measurement with any differences in such fair values reflected in earnings; or (2) to measure both their financial assets and liabilities using the more observable of the fair value of the financial assets or the fair value of the financial liabilities. The guidance will be effective in the first quarter of 2016, with early adoption permitted. The Fund is evaluating the effect of this guidance on its financial statements.

Note 28 Approval of Financial Statements

The Directors approved the consolidated financial statements on 25 February 2016.