

**To: RNS**  
**Date: 18 May 2010**  
**From: New City High Yield Fund Limited**

## **Interim Management Statement**

**For the Three Month Period from 1 January 2010 to 31 March 2010**

### **Investment Objective**

The investment objective of the Company is to provide investors with a high dividend yield and the potential for capital growth by investing mainly in high yielding fixed interest securities.

### **Performance Summary**

	<b>For the three month period ended 31 March 2010</b>		
<b>Total Return</b>			
Net asset value per share		+8.6%	
Ordinary share price		+9.1%	
	<b>As at 31 March 2010</b>	<b>As at 31 December 2009</b>	<b>% Change</b>
<b>Capital Values</b>			
Net assets	£84.1 million	£78.7 million	
Net asset value per share	54.84p	51.33p	+6.9%
Share price	57.25p	53.25p	+7.5%
Premium	4.4%	3.7%	
Gearing (100 = nil geared position) *	112	110	

\* Gearing = Total assets ÷ Equity Shareholders' Funds

### **Review for the Period:**

The major driver of credit markets in the first quarter of 2010 was Sovereign Debt, the parlous state of the Greek economy and its vast budget deficit. This was a prime example of politicians extending the time it took to get the first bailout in place; the first shot was only finalised on 25 March, allowing Greece to sneak in with an issuance of €5bn of seven year bonds at 325bp over bunds just before the end of the quarter. This, however, was very far from the end of the story. There were various comments both on and off the record by German politicians about what further cuts and reforms needed to be in place before funds were to be made available. When, the downgrade of Greek debt to junk status by S&P was added to this, it put the Greek 5 year CDS at 855bps. Ironically, at this point Angela Merkel chose to

comment that negotiations needed to be “sped up”. The pressure was only relieved at the end of April when EU Commissioner, Olli Rehn, gave a statement saying a multi-billion, multi-year programme was being put together which would give Greece breathing space to implement fiscal and structural changes, where the release of funds would be conditional upon the implementation of reforms at each stage. Greece has reportedly agreed to the major requirements of the EU/IMF.

The €750bn fund was, in fact, put in place by the EU/IMF for the stabilisation of all member states. The first €60bn for states facing difficulties beyond their control covered by article 122.2 of the Lisbon Treaty, the next €440bn by a special purpose vehicle which will be guaranteed by member states with a life of 3 years, with the IMF providing the rest. There are many questions regarding the ramifications of this policy, most of which had not been answered by the middle of May when this narrative was written. Normally, we would confine our commenting to the quarter in question, but in this particular case, we needed to show just quite how serious and long lasting the sovereign debt crisis is likely to be. On this point, we look forward with great interest at what measures the new government in the UK will implement to deal with the massive UK budget deficit and how the public react to austerity measures.

As regards the portfolio the theme for the quarter was to take profits on bonds trading at a substantial premium to par and replace them with bonds offering the opportunity for both safe income stream and capital appreciation. The fund also had bonds redeemed such as the Athabasca Oil 13% LN 2011 at a premium to par which, being a Canadian dollar stock, had provided both solid income and capital growth.

The fund took profits on Friends Provident 12% 2021 at a level well above par where the net effect would have been that future income would be at the expense of capital. Also in Alliance Pharma 8% CB 2013 where the running yield had fallen to 5% following the excellent performance of the underlying equity in the last six months up from 18.25p in September 2009 to 33.75p at the end of March 2010.

Major additions to the portfolio came in the form of Skipton B/S 10% 2018 at well below par, Old Mutual 8% Perpetual and KBC FRN 2025 in order to give a good balance between income and growth.

**Dividend:**

A second interim dividend for the year to 30 June 2010 of 0.85p per share was paid on 26 February 2010 to shareholders on the register on 29 January 2010.

**Top Ten Holdings as at 31 March 2010**

<b>Company</b>	<b>Sector</b>	<b>Percentage of total assets</b>
Balfour Beatty 10.75% Cum Pref	Construction	5.6
AMI 31/10/13 10% Cv	Oil & Gas	4.8
REA Finance 9.5% 31/12/17	Food products	4.1
First Hydro Finance 9% 31/7/21	Financial	3.2
Cable & Wireless 8.625% 25/03/19	Telecommunications	3.0
Tullett Prebon 7.04% 06/07/16	Financial	2.7
FMG Finance 9.75% 01/09/13	Mining	2.5
Alliance Pharma 8% Cv 31/12/13	Pharmaceuticals	2.0
Katanga Mining 14% 30/11/13	Mining	2.0
Cirsa Cap 8.75%	Hotel, Restaurants and Leisure	1.9
Total		<hr/> <hr/> 31.8

**Analysis of Investments by Currency as at 31 March 2010**

	<b>Percentage of total investments</b>
Sterling	57
Euro	12
US Dollar	11
Australian Dollar	10
Norwegian Krone	5
Canadian Dollar	5
Total	<hr/> <hr/> 100

### Analysis of Investments by Asset Class as at 31 March 2010

	<b>Percentage of total investments</b>
Bonds	67
Convertibles	22
Preference shares	8
Equities	3
Total	<hr/> 100 <hr/>

### Analysis of Investments by Quotation as at 31 March 2010

	<b>Percentage of total investments</b>
Listed/Quoted on a recognised investment exchange	92
Unquoted (convertible into a security quoted on a recognised exchange)	6
Unquoted	2
Total	<hr/> 100 <hr/>

### Significant Events or Transactions since 31 March 2010

A third interim dividend for the year to 30 June 2010 of 0.85p per share was declared on 22 April 2010. This dividend is payable to shareholders on the register on 30 April 2010 and will be paid on 26 May 2010.

The Board is not aware of any other significant events or transactions which have occurred since 31 March 2010 and the date of publication of this statement which would have a material impact on the financial position of the Company.

### Daily and Key Information

Further information regarding the Company including the share price and the recent monthly fact sheet, can be found at the Investment Manager's website [www.ncim.co.uk](http://www.ncim.co.uk)

### Disclaimer

This interim management statement has been prepared solely to provide information to meet the requirements of the UK Listing Authority's Disclosure and Transparency Rules.

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