

Key Fund Characteristics

Monthly NAV total return	+0.09%	Ticker	SMEF:LN
NAV per ordinary share	100.42p	ISIN	GB00BYMK5S87
Mid-price*	93.50p	Domicile	UK
Premium / discount	-6.89%	Listing	LSE SFS
Dividend frequency	Monthly	Ordinary shares in issue	52,660,350
Dividend yield*	7.70%	Market capitalisation	£49,237,427
Weighted average portfolio gross yield	8.37%	NAV	£52,932,622
Gearing	None	Number of direct loans	229
Currency hedged to GBP	100%	Weighted average maturity	2.6 years

All data as at 31/12/16 *Source Bloomberg

Investment Objective

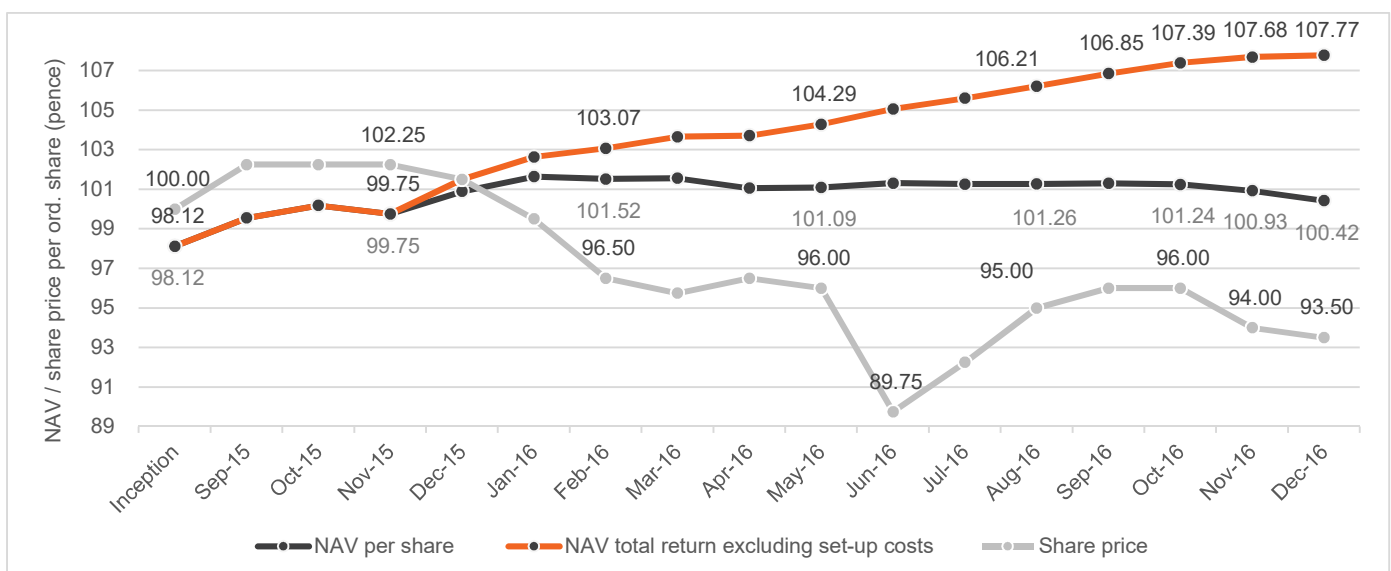
The SME Loan Fund PLC is a UK investment trust with the investment objective of providing shareholders with attractive risk adjusted returns through investment, principally via online finance platforms, in a range of SME loan assets, diversified by way of asset class, geography and duration. The Fund pays a monthly dividend and, over a rolling twelve-month period, is targeting an outright income level of 8% (based on 100p issue price).

Performance and Dividend History

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Inception to date
NAV per share total return, including income*	2015								1.46%	0.64%	-0.43%	1.75%	9.84%
	2016	1.12%	0.42%	0.57%	0.05%	0.55%	0.74%	0.52%	0.57%	0.60%	0.51%	0.27%	0.09%
Dividend per share**	2015												0.60p
	2016	0.40p	0.55p	0.55p	0.55p	0.55p	0.60p	0.60p	0.60p	0.60p	0.60p	0.60p	7.35p
Share price performance total return***	2015								2.25%	0.00%	0.00%	-0.73%	-6.50%
	2016	-1.97%	-3.02%	-0.78%	0.78%	-0.52%	-6.51%	2.79%	2.98%	1.05%	0.00%	-2.08%	-0.53

* Per Ordinary Share excluding set-up costs ** Per Ordinary Share*** Source Bloomberg

NAV vs. Share Price



Market Commentary

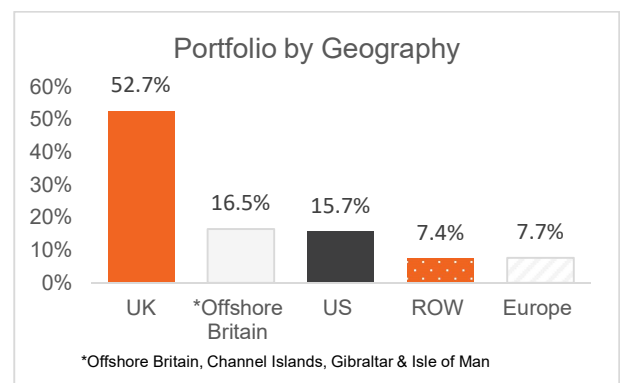
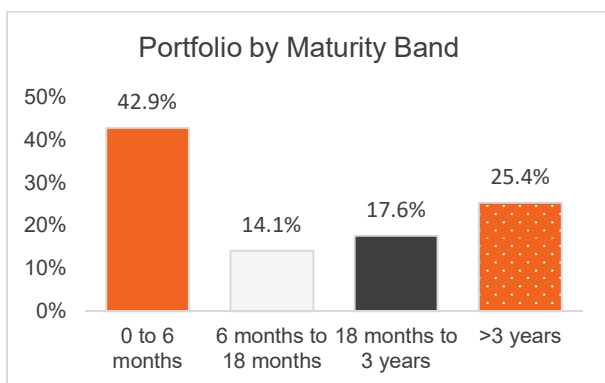
Global economies proved their resilience again during the final month of 2016 with Europe particularly showing real signs of recovery. Germany led the way with impressive gains in factory orders (in the face of a strong Euro vs. the Pound), and the European Economic Research (ZEW) assessment of the current situation for Germany being announced at 63.5 vs. a forecast of 59.0. Concerns did, however, mount over the fragility of several European banks with all eyes focused on the oldest bank in the world, Monte dei Paschi. Its shares have been suspended and investors who bought five years ago will be seeing a loss of more than 95%. This seems to be an isolated incident and certainly equity markets took this in their stride. Spurred on by a “Santa Rally”, the Dax closed up 5.60% on the month whilst the UK Blue Chip index also rose, ending the year up 14.4% in total. The Pound, as measured by the Deutsche Bank trade weighted index, coincidentally fell 14.4% during the same period.

Alternative Finance markets have experienced a challenging 2016 with high profile platform issues leading the way at the start of 2016. Lending Club’s operating issues created a negative feeling in the market which led most investment trusts to trade at substantial discounts to their NAV with many still currently remaining at these levels. Fundamentally, the sector is in good shape and, compared to other asset classes, SME Alternative Finance loans remain an excellent diversifier of risk. This is especially relevant when analysing traditional fixed income markets, many of which provided sharp negative returns during Q4 2016. Rising inflation rates and an increasing central bank rhetoric for increasing official short-term interest rates is unlikely to see anything but negative returns in this sector throughout 2017. This is something that we began to highlight back in late summer of 2016 and we remain confident that low risk exposure should feature some SME Alternative Finance.

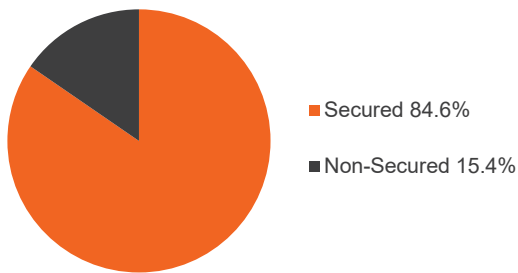
Loan impairments during the past two months within The SME Loan Fund are higher than experienced during the first twelve months following launch but should not be unexpected. A NAV total return of 0.09% this month was achieved after prudent application of new impairments totaling 0.67% of NAV. The Fund continues to have one of the lowest impairment rates within the sector.

Cash levels with the Fund grew substantially during the month as a series of renewable energy loans were externally refinanced. These amounted to 7% of NAV and resulted in the exposure to renewable energy falling from 18.8% to 11.7% and cash increased to 13.2% from 7.4%. Accordingly, the gross portfolio yield fell from 8.99% to 8.37% but, as we have identified previously, the statistics are a snapshot taken at month-end. We continue to identify extremely attractive loans that exhibit excellent risk / reward characteristics.

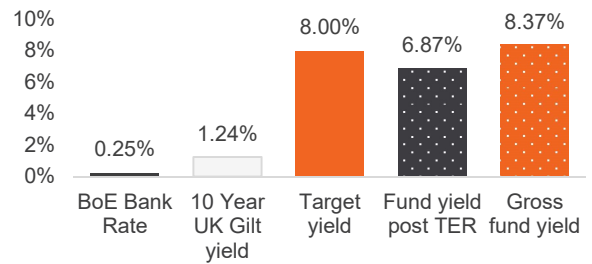
Portfolio Analytics



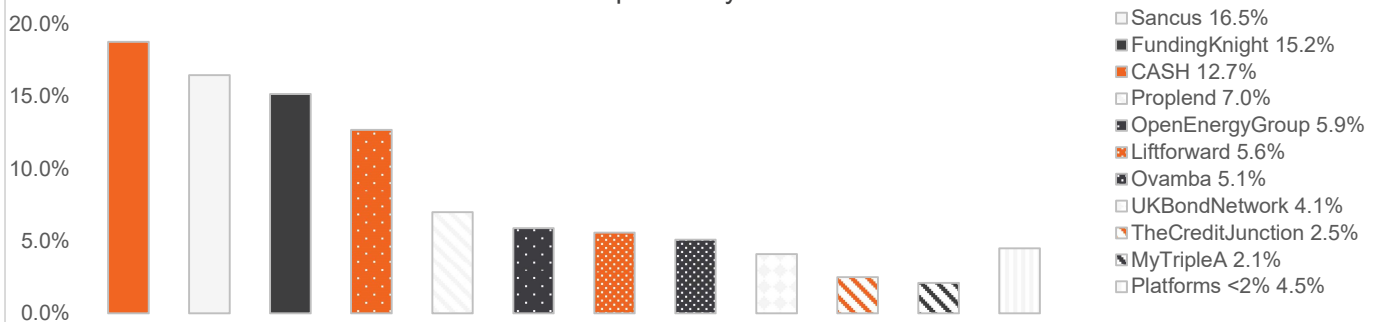
Secured vs. Non-Secured



Fund Yield vs. Benchmark Interest Rates



Portfolio Exposure by Platform



Top-Ten Loan Exposure

Asset	Coupon	Maturity	Currency	Geographic region	Weighting
Loan 1	8.00%	May 17	GBP	Offshore Britain	2.44%
Loan 2	13.00%	Jan 17	USD	US	2.44%
Loan 3	8.00%	Mar 17	GBP	Offshore Britain	2.35%
Loan 4	9.00%	Mar 17	USD	US	2.28%
Loan 5	9.75%	Sep 18	GBP	UK	1.97%
Loan 6	9.00%	Mar 19	GBP	UK	1.93%
Loan 7	7.34%	Dec 19	GBP	UK	1.93%
Loan 8	10.00%	May 17	GBP	Offshore Britain	1.88%
Loan 9	8.00%	Mar 17	GBP	Offshore Britain	1.88%
Loan 10	9.00%	Mar 17	GBP	Offshore Britain	1.77%

For more information, please contact:

Manager: Amberton Asset Management Limited, PO Box 296 Suite W5, Sarnia House, Le Truchot, St Peter Port, GY1 4NA

Email info@thesmeloanfund.com
 Web www.thesmeloanfund.com
 Phone +44 (0) 14 8170 8240



Financial Advisor & Broker: Cantor Fitzgerald Europe, One Churchill Place, Canary Wharf, E14 54RB

Ben Heatley
 Email bheatley@cantor.com
 Phone +44 (0) 20 7894 8229



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