

# The Connaught Income Fund, Series 1

## Asset Manager's Quarterly Report

Welcome to The Connaught Income Fund, Series 1, 11<sup>th</sup> Quarterly Asset Manager's report. Quarterly reports will be distributed by the Operator directly to IFAs as well as being available on our website for downloading. We would welcome any further comment you may have on how we may improve communications.

---

**Investment Strategy**

To invest in short term loans through our specialist partner, Tiuta International Limited, secured by a subordinated legal charge, registered at the Land Registries in England, Wales and Scotland, on a restricted range of real estate as set out in the Scheme Particulars; with a target maximum average loan to value of 75%.

---

**Investment Objective**

A fixed rate of return of between 8.15% and 8.5% per annum (dependent upon an individual investors unit holding) paid quarterly in arrears. For investors in the LP the income will be paid gross and for investors in the EUT the income will be paid net of 20% withholding tax (tax certificates will be provided to facilitate reclaiming the tax).

---

**Launch Date/Life**

Launched on the 1<sup>st</sup> June 2008, the Fund is an open ended vehicle and may be closed by the Investment Manager to new investment at any time and terminated by the Investment Manager giving not less than six months' notice to Holders. With effect from the 1<sup>st</sup> April 2011, Series 1 is closed to new investors. However, the Fund will continue to be actively managed for the benefit of existing investors, including the reinvestment of redeeming loan assets into new short term secured loans.

---

**Date of next distribution**

Within 14 days of the 1<sup>st</sup> July 2011 (the first business day in July 2011).

---

**General Market Commentary**

Demand for secured finance is driven by the demand for property and we were pleased to receive three items of good news at a time when people still believe we are in a financial recession.

First of all, the chancellor is doing his bit for homebuyers by announcing in this month's budget the scheme for helping first time buyers with the deposit they need, in a lending market where the providers are demanding higher deposits than they did in the halcyon days before 2007. First time buyers are the life blood of the market as their transactions work their way up through the chain of property sales and purchases.

However, even better, Agency Express's Property Activity Index for March (1/4/2011) reported a monthly house sales increase of 23% for March, together with an even higher monthly increase for February of 28%.

Also, E1 BTL (1/1/2011) reported today that some 15.6% of all households in the UK are now in the buy to let sector, up for 14.2% in 2008/9.

The above is particularly good news for the Fund as the increased activity means: more secured loan business, particularly so for Tiuta who specialise in lending in

---

---

the buy to let market; a positive effect on maintaining the value of the securities as assets in the Fund; and, clearer opportunities for the borrowers to exit the loan at the end of the term.

Given the above we remain confident in the investment objectives of the Fund.

---

<b>Total Funds b/f</b>	£120,332,287.17
<b>Investment Inflow for the Quarter to 31 March 2011</b>	£3,148,049.94
<b>Redemptions of investment Holdings in the Quarter to 31 March 2011</b>	£6,017,357.47
<b>Reinvested distribution for quarter to 31 March 2011</b>	£1,125,128.19
<b>Gross fund at 31 March 2011</b>	£118,588,107.83
<b>Loans financed in the quarter to 31 March 2011</b>	Number: 32 Value: £8,960,234.45
<b>Loans redeemed in the quarter to 31 March 2011</b>	Number: 64 Value: £25,675,266.79
<b>Loan book at 31 March 2011</b>	Number: 177 Value: £91,310,476.28
<b>Liquidity at 31 March 2011*</b>	£27,277,631.55
<b>Loans in default at 31 December 2010</b>	Number: Nil Value: £Nil
<b>Loan book average LTV</b>	60.37%

---

**Loan book commentary** \*Tiuta's lending activity also reflects the geographical trends as lending in property in the Greater London, South East and South of England continues to account for some 56% of the properties used as loan security. The process for approving loans advanced by the Specialist Partner, Tiuta, is unchanged and the Asset Allocation Committee will continue to review each and every loan that will form an asset of the Fund. Tiuta have entered into a new phase of lending activity and by the early April the liquidity level in the Fund will have reduced significantly but leaving the prudential level we aim to maintain in managing your Fund.

---

**Accounts** Mazars, the independent auditors appointed by the General Partner, have now completed the audited for the financial year ended 31 October 2009 and these are being reviewed prior to sign off and publication to the Limited Partners. The delay has been caused by the change of Operator in September 2009. The audit for the financial year ended 30<sup>th</sup> October 2010 is already underway and, now that the first year's accounts have been reconciled and completed, should be more timely in their publication date.

---

---

---

<b>Likelihood of Equity Loss</b>	Low, subject to the maintenance of the target loans to value and loan terms set out in the Scheme Particulars. The potential for loss will also remain low where there is a regular redemption of loans and re-lending based on up to date independent valuations of the new security properties.
----------------------------------	---

---

<b>Likelihood of achieving Investment Objective</b>	The investment returns in this fund are fixed and guaranteed by the Specialist Partner. Unit price fixed at £1.00
---	---

---

<b>Key Risks</b>	<p>The principal risk arises from borrowers defaulting on loans and the security having to be realised at a loss against the debt outstanding. However, the Guarantee provided by the Specialist Partner covers the Fund against such losses and the Fund itself mitigates this risk by maintaining the target maximum LTV. The risks described in the Investment Memorandum should not be considered to be an exhaustive list of the risks which potential investors should consider before investing in the Fund.</p>
------------------	---

From the above risk arises the secondary risk, the inability of the Specialist Partner to meet the terms of the Guarantee, in particular, should it go into some form of administration. In this case the Fund would exercise its subordinated loan charges and would arrange the appointment of a suitably authorised mortgage administrator to take over the loan assets and manage them for the benefit of the Fund.

On the 23<sup>rd</sup> February the Tiuta Board of Directors informed the Investment Advisor that they had been made aware of significant trading losses, which, amongst other factors, was due to low lending activity in the 4<sup>th</sup> Quarter of 2010 and a substantial increase in costs, both factors requiring immediate action. BDO has been appointed to review their financial situation and structure, together with appointing a new and qualified financial controller. BDO and the new financial controller have confirmed and produced budgets demonstrating Tiuta's return to profitability, which includes: a return to the lending activity levels required to produce an appropriate level of income, funded by the high level of liquidity that had built up; and, immediate staff cost savings of over 19%. The Chairman of Connaught Asset Management Limited reported to the directors of Connaught Asset Management (Guernsey) Limited that he and the Connaught financial controller had also conducted a thorough due diligence review of Tiuta and confirmed that they were now satisfied: that the assets of this Fund were appropriately secured; that there was sufficient additional assets to give value to the Debenture and Guarantee held by the Fund; that the financial model and projections gave an accurate view of the financial future of Tiuta plc; and, Connaught Asset Management Limited has continuing confidence in Tiuta Development Finance Limited as the Specialist Partner. However, Connaught Asset Management Limited has considered it prudent to identify a suitably FSA authorised firm to manage the loan book forming the assets of the Fund in the very unlikely event of Tiuta being unable to continue to act as the Specialist Partner, and are also identifying authorised short term lenders who could continue to source and manage new loans.

---

Mike Davies  
Chairman  
Connaught Asset Management Limited  
April 2011