

The Connaught Income Fund Series 3

Due Diligence Pack

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Section 1: An Introduction to Connaught Asset Management

Connaught Asset Management (CAM) was established in 2007 as a boutique asset manager. The business was founded on the following key objectives:

- Wealth preservation – there was a lack of funds in the market where investors could place cash-like segments of a portfolio with very limited risks to capital for a realistic return
- Desire for income – investor appetite for predictable income has increased in line with increased volatility in equity markets
- Desire for transparency – separate and independent Operator ensures ongoing, independent review of fund activity

As a result of striving to reach these objectives, CAM is distinctive in a number of different ways. The most important differences include:

- We do not invest in equities – we deem them to be too volatile, ultimately putting capital at risk
- All funds are asset-backed
- All onshore funds are structured as Limited Partnerships with Exempt Unit Trust feeders for pension, charity, and other non tax paying entities' investments. The Series 2 Income Fund is an offshore fund is structured as an open ended unit trust.
- Investors in the LPs (and indirectly via the exempt unit trusts which invest solely in the LPs) have full legal ownership over a physical asset with maximum transparency on that asset as a result of outsourcing compliance and administration to external third parties

Who are the funds suitable for?

- A cautious investor seeking the prospects of income generating investments
- An investor wishing to have relatively liquid investments (30 days notice; five month initial holding period for Series 1)
- An investor seeking to achieve a widely diversified portfolio to reduce investment risk
- An investor seeking to reduce their levels of exposure to equities

The Connaught Fund Range

Connaught already have seven successful funds under management, these include four close-ended Land funds and three Income Funds.

The Income Funds have been designed to help investors to preserve capital whilst receiving a good fixed income of between 7.15% and 9%.

The following table demonstrates the individual characteristics of the three Income Funds and also gives an indication as to how they co-exist to provide investors with diversification across different asset classes.

	Series 1	Series 2	Series 3
Returns	8.15 - 8.5%	7.15 – 7.5%	8.5 – 9%
Notice Period	5 months initial, then 30 days	30 days	30 days
Fund Size	£120 million	£500 million*	£10 million
Minimum investment	£20,000	£20,000	£20,000
Average Investment	£70,000	£150,000	£40,000
Loan Type	Residential	Residential and some Commercial	Agricultural and rural
Typical Loan Term	Average 9 months	Average 18 months	Average 9 months
Target Maximum Average LTV	75%	65%	65%
Fund Domicile	UK	Guernsey	UK
Fund type	LP and EUT feeder	Authorised UT	LP and EUT feeder

**Series 2 size is a target and not the size as at today (3-11-2010)*

Key People – Connaught Asset Management

With a head office in Wimbledon, Connaught has brought together a team of experts with broad knowledge across asset-backed investments and specialist knowledge relating to the bridging market.

The following pages outline the key members of the team, what their functions are, and a brief background of their career to date.

Alistair Mawdsley

**Managing Director
Connaught Asset Management**



Alistair brings to the team substantial experience of the intermediary marketplace having worked for a wide range of blue-chip organizations. He has worked for Friends Provident, Flemings, Save & Prosper, Royal and Sun Alliance, and Abbey over the last 20 years. He has spent the last three years re-launching Scottish Provident International into the UK.

Alistair is committed to establishing and building Connaught's long-term relationships within the UK and Channel Islands, with the leading intermediaries and institutions.

Matt Bedding

**Managing Director
Connaught Administration Services Limited**



Matt is responsible for the operation of Connaught Asset Management and its subsidiary companies.

Since 1990, Matt has worked with some of the highest profile investment houses and financial services companies in London. Prior to joining Connaught, he was business development director for Capita Financial Group's specialist funds business, specialising on onshore/offshore real estate and private equity structures.

Previously he was at Merrill Lynch where he was responsible for client services and operations in London and Dublin for their largest and most profitable brokerage office outside of the United States. He has held senior relationship management and operational management positions at RBC Dexia Investor Services, Gartmore Investment Management, Barclays Global Investors, and Legal & General Investment Management. He started his financial career with Royal Bank of Scotland Trustees.

Mike Davies

**Chairman and Director
Connaught Asset Management**



Mike has managed compliance functions at a senior management level, since the introduction of the Financial Services Act 1986 in 1988, in a variety of firms in the UK retail financial services market, including an IFA, a large regional building society and the UK group subsidiaries of the Bank of Ireland.

Prior to becoming the technical director of a regulatory compliance consultancy, Mike was Head of Compliance for a joint venture between the Bank of Ireland and Post Office Limited, the setting up of which culminated in Post Office Limited and branches becoming an appointed representative of Bristol & West plc, Bank of Ireland UK regulated subsidiary company. He is currently the Chairman of Connaught Asset Management and Compliance Officer for a short-term lender. His particular specialist areas are financial promotions, training & competence and senior management systems and controls.

Mike is a frequent speaker at compliance conferences, particularly with regard to financial promotions. He is a Fellow of the Chartered Institute of Bankers and an Associate Member of the Compliance Institute.

Chris Taylor

**Deputy Chairman - Asset Allocation Committee
Director – Connaught Asset Management**



Chris Taylor has spent his entire career within the financial services industry predominantly within banking and asset management. For the last 25 years, he has worked within Compliance. He was appointed as the joint Deputy Head of Group Compliance for the global NatWest Group, and more latterly has worked within Swiss Private Banking and Consultancy.

He has travelled abroad extensively to conduct compliance reviews in overseas subsidiaries and to provide guidance and support. As a result of earlier involvement with human resource management, he continues to take a close interest in staff training and development. He has been for many years, Chairman of an independent discussion group of asset management compliance professionals, Deputy Chairman of the Institute for Securities and Investment Compliance Forum and a member of the CISI Integrity and Ethics Committee where he was asked to help project manage the production of a booklet on ethics within the financial services industry.

Chris has been a frequent speaker and Chairperson at Compliance conferences and has had several articles published in learned magazines. In addition to his role at Connaught Asset Management, Chris holds several Non-Executive Directorships at other financial institutions as well as being a Freeman of the City of London and a Liveryman of the Worshipful Company of international Bankers. He is an Associate of the Chartered Institute of Bankers and a Chartered Fellow of both the Chartered Institute for Securities and Investment and the Chartered Institute of Personnel and Development.

James Bromhead

Chairman, Asset Allocation Committee



James has spent the past 10 years working in rural property and the development industry for Knight Frank, The Buccleuch Group and private investment companies. He has worked primarily in the asset management and planning promotion of extensive residential and commercial property portfolios with market values in excess of £80 million.

James is the Property Director for the Group coordinating the delivery and management of land and property funds launched by Connaught. As Chairman of the Asset Allocation Committee, James will ensure the review of each loan application recommended by UK Acorn Finance Ltd will comply with the investment procedures and rules. He will continue to liaise with the Specialist Partner and assess the balance of loans throughout the life of fund.

James will use his extensive contacts in the rural land industry to manage the asset allocations and bring forward new investor groups to the fund. James is a member of The Royal Institution of Chartered Surveyors.

James Allen

New Funds Director



James studied Economics at the University of London and has extensive experience in the financial markets, analytics and advertising. James is a member of the asset allocation committee and will use his experience to assist with ensuring that all loans recommended to the Asset Allocation Committee comply fully with the investment procedures and rules.

He has played a key part in the development of the Series 3 Income Fund and will also continue to liaise with existing clients to keep them informed on the progress of the fund.

Section 2: A Summary of Series 3

To provide an example of the way all of the Connaught Funds are structured, the Series 3 Income Fund has been selected as an example to allow us to go into more detail as an illustration.

Connaught Income Fund, Series 3

Summary:

The fund provides short term Bridging Finance secured by a first charge against the assets to which this finance is related. This is done on a 'pooled' basis to ensure that investments are spread across a large number of underlying loans, properties, and assets to minimise risk.

The fund is operated by Dunadd Asset Management Ltd who specialize in operating and managing property funds. The operator is authorized by the FSA to create, operate, and wind up collective investment schemes.

Investment Rationale

The Connaught Income Fund Series 3 offers investors the opportunity to invest in short term lending on agricultural land and buildings, including farmhouses, rural and country properties, which provides a fixed annual income from 8.5% to 9% (depending on amount invested) paid quarterly in arrears.

All loans made by the fund are secured by a first charge on the property being loaned against in favour of the fund. All charges are officially recorded with the Land Registry (who recognize the fund as the lender) and remain in place until the fund's general partner releases them. The charge is not released until the loan has been repaid to the fund.

The current conditions in the UK lending market have resulted in an increase in the time it takes to source funding and this applies to all areas of the banking sector. This is the opportunity that Connaught have realised – to become what is essentially a rolling credit facility to specialist partners who make bridging loans.

Bridging Finance – a view of risk as an investment

Bridging finance is short-term in nature with loans of typically 6, 9, or 12 months depending on the type of lending, with relatively low Loan to Values ratios (LTVs), set at a target average of 65%. Very high LTVs carry a much higher inherent risk.

Each property is subject to a RICS valuation and a second valuation if in the Specialist Partner's view it is necessary. Where there are renovations involved the LTV is calculated on the 'clean land' value rather than the improved valuation post works. The interest and charges are taken from the loans at the outset, further reducing the lending risk.

Why invest in the short-term agricultural lending market?

Lending by UK Acorn Finance Ltd will be strictly on the basis of a 1st charge against the asset. With very few exceptions, the maximum average Loan to Value is 65% and the average loan term will be 9 months.

Given: the lack of volatility in the agricultural land market; the low target LTV; historically low default rates; the fund will be no more than 1% of the total Secured Lending in this sector; the full amount of any defaulting agricultural loan has always been recovered*; the fund is asset backed by being wholly secured against a maximum average loan to value of 65% – together with a charge over the deposit account into which the interest for the term of the loan has been deposited; and, the regular turnover in security. *Source UKAFL May 2010

Why a Limited Partnership Structure?

This fund is intentionally structured as an open-ended English Limited Partnership with an attendant Exempt Unit Trust because the Operator and Asset Manager believe that this offers the best investment protection for investors.

The first charge on all properties monies are loaned against, and the Guarantee from the Specialist Partner for the interest income and capital to the fund and investors, will be registered to the Limited Partnership.

As a result, investors into the fund will have the added security of collective beneficial ownership in a Limited Partnership structure but without the responsibilities for the operation and management of the Limited Partnership, which rests with the General Partner, Connaught Administration Services Limited.

Specialist Partner UK Acorn Finance Ltd

UK Acorn Finance Ltd is the Specialist Partner to the fund and manage the loans on behalf of the fund. They specialize in short term lending to the agricultural sector for 3 specific scenarios; extension of an existing holding, development of farm buildings that have planning permission and the purchasing of tenancy farms. These are all short-term scenarios and they can be valued and timed with a high degree of certainty.

Liquidity

Investment in the fund should be considered medium-term, but Investors may apply to withdraw from the fund at any time with 30 days notice from the initial monies being drawn down by the Operator.

The interest will be paid quarterly in arrears to Investors within 21 days of the first working day of January, April, July, and October. Any monies invested within a quarterly period will have the first interest payment made on a pro rata basis from the date the funds are drawn down into the fund for investment.

Investors may also roll-up any interest payments due from their initial investment and re-invest this money into the fund. Monies withdrawn during any quarterly payment period will forfeit any interest accrued during that quarterly payment period.

Monies invested during a calendar month will be drawn down on the midpoint or the last working day of any calendar month and the investment return will commence immediately after that drawdown. Upon investment redemption, Investors will be returned 100% of their initial investment. Investors can request withdrawals from the fund providing the minimum remaining investment is set at £20,000.

To help protect the fund, loans are made conservatively with low LTV ratios, but in the unlikely event of a defaulting loan where the proceeds from a sale of an asset are insufficient to cover the value of the loan made by the fund, a bank account has been created with a standing balance earmarked to cover any potential capital shortfall and also to ensure that there is sufficient money to cover the next distribution payment.

This bank account is with Coutts and requires the signatures of both Connaught and Acorn to withdraw funds from it. The value of this account currently stands at £375,000 and will increase in line with the fund size to always be at least 2.5% of the value of the fund. There is also a debenture over Acorn's assets to further protect against any loan defaults where the value of a liquidated asset does not cover the value of the loan.

Keeping Investors Appraised

Quarterly reports are issued on this fund and we are happy to forward these on to you should you wish. They are issued on or around the 15th of October, January, April, and July in line with the quarterly distribution dates. These will also be available to access via Connaught's website.

Fixed Income Returns

The fund will pay a fixed income of 8.5-9% on a quarterly basis, paid in arrears.

Role of main parties

The premise of using multiple third parties is to increase transparency and hence, improve compliance of the fund. The following outlines the main parties involved with the Series 3 Income Fund.

Dunadd Asset Management Limited
The Operator

Dunadd Asset Management Limited specialises in developing and operating Limited Partnerships and has a very close affinity to the fund designed by the General Partner and Asset Manager.

The Operator is authorised under the Financial Services and Markets Act 2000 to act in the United Kingdom as the Operator of unregulated collective investment schemes and is regulated by the FSA in the conduct of its regulated activities.

Connaught Asset Management Limited
The Asset Manager

The Asset Manager has been appointed by the Operator.

The Asset Manager has been specifically created to provide services, which cater for the institutional, experienced, and sophisticated investor markets. For The Connaught Income Fund, Series 3 (the fund), the Asset Manager will be using the professional services of UK Acorn Finance Ltd (Acorn), as the Specialist Partner. Acorn will use the revolving credit facility supplied by the fund to provide short-term lending to the UK agricultural sector, secured on agricultural land and buildings.

Key roles as Asset Manager:

- Approve all proposed loan applications recommended by the Specialist Partner
- Review the independent valuations on any assets before accepting applications
- Ensure that the loan security is registered to the fund
- Ensure that the correct amount of interest monies is paid to each Investor in the fund
- Review progress on each loan
- Ensure that, after the fund has been operating for at least 6 months, no single loan exceeds 15% of the total monies raised for the fund
- Ensure that all monies are repaid to the fund following completion of any loan
- Report to the Operator on the performance of the fund
- Prepare quarterly Management reports

UK Acorn Finance Ltd
The Specialist Partner

UK Acorn Finance Ltd (UKAFL) has been established to offer short-term loans to the UK agricultural market. The loans range from £30,000 to £5,000,000 in value and are secured by a legal first charge basis against, for example, farmhouses, rural and country properties, agricultural buildings and land.

UKAFL's management and personnel have a strong background in the agricultural sector and short-term finance through UK Farm Finance and UK Country Capital and are ideally placed to take advantage of the current squeeze in lending from traditional bank sources. Their strict credit controls, firsthand experience in the market and strong links to access the most favourable borrowers enables them to charge the premium rates that drive the returns to the fund's Investors.

Much of the board's experience has been gained from working within the agricultural sector in the short-term finance market and also with UK Farm Finance Limited, which had a highly successful and profitable track record of providing agricultural bridging finance up until the global collapse in the financial system in September 2007, which halted new lending. The fact that a market gap still exists is evidenced by enquiries over the last six months totalling in excess of £100m. This represents a good level of business enquiries particularly as they have been received without any promotion taking place.

Key roles as Specialist Partner

- Through existing client contacts, advertising presence and its broker network Acorn will source loan applications from borrowers who meet the fund criteria.
- To lend monies raised in the fund through a revolving credit facility secured by a first charge on selected assets.
- Provide the Asset Allocation Committee (AAC) with all documentation regarding a proposed loan
- Ensure a thorough credit vetting process has been undertaken
- Provide an independent RICS valuation, from an agricultural specialist, on the market value of each property
- Ensure a subordinated legal charge in favour of the fund in respect of each security is registered with the Land Registry
- Provide a monthly progress and activity report on all loans relating to the monies raised by the fund

Risk Factors

General

An investment in the Limited Partnership or the Exempt Unit Trust involves a degree of risk and investment results may vary over time. When reviewing historical performance data in this Information Memorandum, prospective Investors should bear in mind that such information is not indicative of future performance.

Compensation

Investors will not be entitled to compensation under the Financial Services Compensation Scheme.

Indemnity

In certain circumstances, more particularly referred to in the Limited Partnership Agreement, the General Partner, the Operator, and the Asset Manager may be entitled to be indemnified out of the assets of the fund for liabilities, costs, and expenses arising in connection with services in relation to the fund.

Lack of Investor control

Investors will have no opportunity to control the day-to-day operations, including investments and disposal decisions, of the fund.

Liability

Although participations in the Limited Partnership are structured as 99.99% of non-interest bearing loan and 0.01% of capital, it is possible that a court may determine in the event of the Limited Partnership's bankruptcy that an Investor is liable to return to the Limited Partnership any loan which has been repaid in addition to any repaid capital. Such a return of funds may occur, in particular, in the event that such Limited Partnership is subject to litigation or where a warranty or indemnity given by the Limited Partnership is called on.

Market Factors

The performance of the fund may be affected by a variety of market factors, such as a change in demand for short term lending in the agricultural sector or adverse changes in political, economic, or social conditions.

Valuations

The valuation of a Property is a matter of a Valuer's opinion rather than fact.

Tax Considerations

An investment in the fund involves tax considerations which may differ for each Investor and each Investor is advised to consult their own tax advisers.

Track Record

The key personnel within the Asset Manager and the Specialist Partner have experience within their respective spheres of asset management and short term lending in the agricultural sector. The fund however is a new concept, and therefore has no prior track record. The success of the fund will depend on the ability of such key personnel to carry out the obligations of such entities.

The performance of the fund could be adversely affected should one or more of such individuals cease to participate in the activities of the fund.

Tax Position

Non-pension investors will receive gross interest which will need to be declared on your annual self assessment tax returns. Gross interest can be rolled up as an additional investment if income is not required, although the rolled up interest should still be declared annually, similar to bank and building society deposit accounts.

Pension fund investors usually invest via an exempt unit trust with income tax is deducted at 20%, which should then be reclaimed by their scheme administrators and/or trustees. The Investment cannot be held within an ISA, as it is an unregulated collective investment scheme.

Adviser Remuneration

Advisers will receive 1% trail.

For the Series 2 and Series 3 Income Funds, the 1% trail commission can be added to the investors unit holding to purchase further units should the IFA decide to decline or agree a lower rate of remuneration with the client.

Section 3: Platforms Accepting Series 3

Transact
Nucleus
Ascentric (quarterly dealing)