

The Connaught Income Fund, Series 3

Who is UK Acorn Finance Ltd?

Acorn specialises in offering short term (bridging) loans in the agricultural market. Loans are provided to landowners, farming businesses and occupiers, ranging from £30,000 to £5 million and secured by a first legal charge against the property.

The directors of Acorn have a diverse client base through involvement in the agricultural industry for the past 25 years. The majority of loans are to farmers.

Why invest in bridging finance?

Bridging finance offers short term loans that are secured against property and can generate high interest returns.

The demand for short term loans has increased substantially during the past two years, following the sharp reduction in mortgage availability and traditional secured lending streams.

What is their track record?

UKAFL is a new company that has been established for the sole purpose of accessing the revolving credit facility provided by the Fund; two previous companies UK Farm Finance Ltd and UK Country Capital Ltd share key personnel with UKAFL.

Between May 1999 and May 2005, UK Farm Finance (Bristol & West Building Society credit facility) made 180 loans to the value of £11.4 million at an average loan to value of 65%. No losses were incurred on this loan book.

Between August 2005 and August 2007, UK Country Capital (Barclays Capital credit facility) made 159 loans to the value of £78.9 million at an average loan to value of 65.2%. The default rate was 1.1%.

Connaught Asset Management manages The Connaught Income Fund, Series 1 which to date has raised £120 million with an average loan to value of 67%. The Fund provides finance for short term lending in residential property. The default rate is zero.

What is the target Fund return?

The Fund will pay investors a fixed rate return of between 8.50% (APR) and 9.00% (APR), paid quarterly in arrears.

Can the return change?

No. The interest rate return is fixed for a period of 4 years from June 2010. The interest rate is paid quarterly from the first working day from January. The Fund cannot reduce the interest rates paid to investors regardless of the BoE base rates being reduced below the current rate.

Investors can choose to roll-up or receive their interest payments. Interest accrued for 3 years at 9.00% will achieve 10.20% AER.

How do I access the Fund?

The Fund will be available through Platforms, for example Transact, Nucleus and Ascentric.

Can the Fund be used in Pension Funds?

Yes. The Limited Partnership has an associated Exempt Unit Trust which means the Fund is eligible for use by SIPP, SSAS, Charities and any other registered pension scheme under the Finance Act 2004.

Minimum level of investment & liquidity?

£20,000 through an authorised and regulated investment specialist.

£45,000 or the Sterling equivalent of 50,000 Euros, for direct investments into the Fund from person (s) who are 'investment professionals' as defined in Article 19 of the FSMA 2000.

30 day notice period.

What commission rate does the Fund offer?

The Fund offers a 1% annual trail commission paid quarterly in arrears from the first working day of January. Any investments placed during a quarterly period will have the commission paid on a pro-rata basis in the same way investor interest payments are calculated.

Important Notice

This document is not intended as an offer or solicitation for the purchase or sale of any investment or financial instrument. The investment approach and process described may not be suitable for all investors. Past performance is not a guide to future performance, and the investments discussed may go down as well as up, and all investors may get less money than they originally invested. The opinions expressed are subject to change without notice and no reliance should be placed upon them. Although Connaught Asset Management considers the information in this document to be reliable no warranty is given to its accuracy or completeness. Connaught Asset Management is not authorised or regulated by the FSA or any other regulatory body and is not authorised to give investment advice or undertake any other regulated activities.

How does the Fund secure investor interest?

The Fund is structured as an English Limited Partnership to ensure that the investors directly hold a first legal charge (Registered Title) against the loan property, until the loan is discharged.

In addition, the Fund has a Guarantee Agreement from Acorn against capital held in an escrow account to satisfy the next quarterly distribution in the event of any default.

5% liquidity maintained in the Fund throughout its term.

What are the Fund charges?

The Fund has an initial charge of 1% and an annual management charge of 1.5%. However all charges are paid by Acorn which means that investors receive 100% allocation on their capital and interest payment calculations.

What happens if a loan defaults?

The Fund IM sets out the protocol for loans that default. If a possession is required, the Fund will sell the property on the open market to realise the value of its loan, returning the balance to the borrower. The Fund will not seek to make profits through defaulting loans.

Will the Fund be geared?

No. The Fund will not borrow or leverage on any money raised.

What impact on demand for short term lending will a return to normal bank lending conditions?

Demand is expected to be sustained irrespective of an increased in traditional secure lending, based on the inherent historical demand for short term.

- **Quarterly fixed income payment**
- **Short term agricultural bridging finance with an average 65% LTV**
- **All loans secured against property with a first legal charge**
- **Open ended Fund**
- **Additional guarantee on the income from the Specialist Partner**
- **30 days notice to withdraw**
- **Up to 10.15% annualised over 3 years total return**
- **Fund available as a UK Limited Partnership with Exempt Unit Trust for SIPP, SSAS and eligible investors**

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