

The Connaught Income Fund, Series 3

Asset Manager's Quarter 8 Report – 30th June 2012

Welcome to The Connaught Income Fund, Series 3, 8th Quarterly Asset Manager's report.

Investment Strategy To invest in short term loans through our Specialist Partner, UK Acorn Farm Finance 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 Information Memorandum; with a target maximum average loan to value of 65%.

Investment Objective A fixed rate of return of between 8.5% and 9.0% 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 7th July 2010. The Fund was suspended on 5th July 2012 and the loan book will be wound up with capital monies returned to investors as and when the loans are redeemed at the end of their term.

Distributions to Date The income distribution was paid, or reinvested where this option has been selected by the investor, within 21 days of 2nd July 2012 (the first business day in July 2012)

Date of next distribution Within 21 days of 2nd October 2012 (the first business day in October 2012).

General Market Commentary

The UK farmland market continues to maintain a robust outlook in 2012. In Strutt & Parker's English Farmland Market Review, Quarter 1 2012 they reported 'an increase in arable land valued during the first quarter of 2012 albeit at a slower pace. Arable and pasture land values increased by 1% and 4% respectively on the previous quarter. The rise continues the upward trend seen during the second half of the last decade. During this time, land prices have doubled from an average of around £3,000 per acre in 2005 to the current peak. This performance has led to many non-farming investors starting to look at farmland as a serious investment. The property agent Savills recently reported in conjunction with Oxford Economics (26 June 2012) that 'Farmland values will rise 37 percent by 2016, beating forecast growth for gold, oil and ten-year British Government bonds and homes in London's most exclusive neighbourhoods.' The Price of British farms will rise higher than any other class of real estate in Europe over the next four years driven by investors buying farmland to capitalise on growth in global demand for food and also to shield wealth and pay less tax.

Savills head of rural research Ian Bailey told Reuters. "Supply is tight and demand is especially strong for arable crops like wheat and rape. This scenario has increased investors' to focus on agricultural land globally as an asset class. Grain, a non-governmental organization that promotes the sustainable use of

the world's resources, last year estimated that between \$5 and \$15 billion of pension fund money was invested in global farmland, a figure it said would double by 2015."

Savills did maintain that whilst "opportunities presented by good quality larger commercial farms (income generation and capital appreciation) are highly attractive, with a shortage of this type of farm ensuring prices achieved are often significantly above the average figures reported in this bulletin." (Savills Market Survey Agricultural Land Research 2012).

"Conversely, amongst buyers there is a resistance to poor quality farmland and to smaller farms where the residential aspect dominates. Sensible guide prices and realistic vendor expectations are key to securing sales in these sectors in the market during 2012.

Within the Fund there are farms that fall into both categories and recent auctions to sell several holdings have yielded different results. A large agricultural holding in the north-west sold for 10% above guide whereas other auctions have struggled for smaller holdings, including two lots that failed to sell in South Wales last month. Subsequent sales were negotiated post auction, but the sale process becomes more protracted and time consuming. It demonstrates that where local demand is strong and scarcity of quality tracts of land come to the market strong market prices are achieved. Other less desirable locations or where there is local social and economic forces at bay, sales have proven more difficult

On the whole the market is a positive sector within the current economic climate and should assist with maintaining the property values of farms held within the Fund. The Specialist Partner is working closely with each borrower to secure an exit strategy either through sale or refinance. The latter has proved more challenging in the current market and was a contributory factor in the suspension of the fund as investor redemptions increased ahead of loan redemptions.

However, during the past three months, the Specialist Partner has redeemed £3.2 million of fund loans through a combination of sale and refinanced. Similar figures are expected during future quarters as the fund is gradually wound up and capital monies are returned to investors.

Investment Inflow for the Quarter to 30 June 2012	£825,821.84, (includes reinvested income and commission from 31 March 2012)
Redemptions of investment holdings in the Quarter to 30 June 2012	£5,569,089.22
Gross fund value at 30 June 2012	£21,931.049.16

Loans financed in the quarter to 30 June 2012 Number: 1
Value: £566,300.00

Loans redeemed in the quarter to 30 June 2012 £3,196,538.37

Loan book at 30 June 2012 Number: 40
Value £24,974,768.61

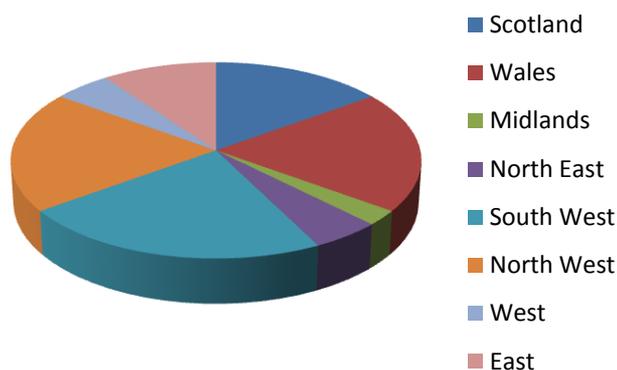
Liquidity at 30 June 2012 £606,975.36

Loans being wound up at 30 June 2012 All the loans in the Fund are now being redeemed and wound up as the Specialist Partner liaises with each borrower to reach a loan exit. Three of the borrowers are currently in litigation which will extend the time to recover possession of the property and the capital monies lent.

Loan book average LTV 63.98%

Geographical Spread %	Area	Number	Percentage
	Scotland	6	15%
	Wales	8	20%
	Midlands	1	2.5%
	North East	2	5%
	South West	9	22.5%
	North West	8	20%
	West	2	5%
	East	4	10%

Geographical spread by number



Loan book commentary UK Acorn Farm Finance Limited will gradually wind up the loan book over the next 24 months. Several loans are currently in litigation where borrowers have rejected claims for possession following their failure to repay loan monies. The Specialist Partner will continue to pursue those borrowers until such time as either a possession order is secured and a right to sell, a settlement is agreed

or the borrower manages to secure new finance or sell the property and repay the outstanding loan and accrued charges.

Accounts

The audited accounts were published on 4th May 2012.

Likelihood of Equity Loss

Low, subject to the maintenance of the target loans to value and loan terms set out in the Information Memorandum. The potential for loss will remain low where the Specialist Partner is able redeem loans and recover the capital monies lent.

Likelihood of achieving Investment Objective

The investment returns in this fund are fixed and paid for by the Specialist Partner.

Key Risks

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 Information Memorandum should not be considered to be an exhaustive list of the risks which potential investors should consider before investing in the Fund.

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 use its Consumer Credit Licenced subsidiary, Connaught Administration Services Limited, to take over the loan assets and manage them for the benefit of the Fund.

Mike Davies
Chairman
Connaught Asset Management Limited
July 2012