

The Connaught Income Fund, Series 3

Asset Manager's Quarterly Report – 31 December 2011

Welcome to The Connaught Income Fund, Series 3, 6th Quarterly Asset Manager's report. We have listened to the feedback from our investors and their financial advisers and have adopted this new format in response to a general demand for more streamlined reporting to pinpoint the various features and milestones in the Fund, whilst still providing a commentary on the short term finance. 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, 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%.
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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).
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Launch Date/Life	Launched on the 7 th July 2010, 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.
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Distributions to Date	The income distribution was paid, or reinvested where this option has been selected by the investor, within 21 days of 3 rd January 2012 (the first business day in January 2012)
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Date of next distribution	Within 21 days of 3 rd April 2012 (the first business day in April 2012).
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General Market Commentary	<p>This quarter's review of the market continues to show farming as bucking the current economic trends in some ways. For most of us the economic recession started in the Autumn of 2007 and our incomes have, at best, flat-lined or reduced if we are pensioners relying on income from savings. However, from 2007 to 2008 total income from farming in the UK virtually doubled, from £2886 million to £4793 million and to the end of 2010 has remained virtually unchanged (www.ukagriculture.com/statistics 29/12/2011).</p>
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In 2008 (the last year for which figures are available on the UK Agriculture website), the year of the great recession in residential property sales and values, the price of farmland in England increased by 29% over 2007. Strutt & Parker the leading agricultural land agents predict that the value of farmland will continue to increase as demand outstrips supply, including the demand for food and soft commodities produced by that land (www.struttandparker.com/news/rural-property 29/12/2011)

All good news for our Specialist Partner who, as a leading supplier of short term finance to the agricultural industry, can through the medium of simple economic demand theory achieve the rates of return on their loans that will support the interest rates we pay to our investors.

The value of the securities offered for the Acorn loans we finance and the ability of the borrowers to exit at the end of the term is dependent upon the market sentiments expressed above and I have every confidence in the quality and performance of the assets in the Series 3 Fund.

Investment Inflow for the Quarter to 31 December 2011 £ 3,329,604
(includes reinvested income and commission from 30/09/2011, but excludes reinvested amounts from 31/12/2011)

Redemptions of investment holdings in the Quarter to 31 December 2011 £1,037,183

Gross fund value at 31 December 2011 £30,225,738

Loans financed in the quarter to 31 December 2011 Number: 11, plus 1 development loan
Value: £10,494,150

Loans redeemed in the quarter to 31 December 2011 Number:10
Value: £6,950,830

Loan book at 31 December 2011 Number:43
Value £28,082,123

Liquidity at 31 December 2011 £2,143,615

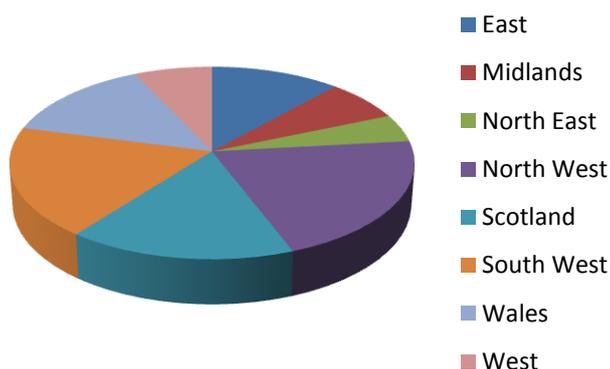
Loans in default at 31 December 2011 LPA Receivers are working with the specialist partner and the borrowers in respect of four loans. Three are on the market for sale with the fourth being placed on the market for sale shortly.

All of the other loans in the portfolio are performing and paying interest and where appropriate and in the best interest of the Fund have been re-financed.

Loan book average LTV 61.12%

Geographical Spread %	Area	Number	Percentage
	East	5	11.63%
	Midlands	3	6.98%
	North East	2	4.65%
	North West	9	20.93%
	Scotland	7	16.28%
	South West	8	18.60%
	Wales	6	13.95%
	West	3	6.98%

Geographical spread by number



Loan book commentary	UK Acorn Farm Finance Limited continued to utilise all the funds available in the quarter, except for the liquidity we retain for prudential fund management purposes. Indeed, it is clear that there is a growing demand for their farm finance products and a greater appetite from them for further funds.
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Accounts	The first year end for the Fund is the 31 October 2011 and the accounts are being prepared and audited at present.
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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 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.
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Likelihood of achieving Investment Objective	The investment returns in this fund are fixed and pre-funded by the Specialist Partner.
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Key Risks	<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 Information Memorandum should not be considered to be an exhaustive list of the risks which potential investors should consider before investing in the Fund.</p>
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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.