Manager Commentary

Spearpoint Limited ('Spearpoint') took over the Investment Management of the formerly Arch Financial Partners LLP managed funds on 1st December 2009 inheriting the assets as shown. Spearpoint played no part in the management of the assets prior to this date. Nor did Spearpoint play any part in the valuation of the portfolio or the calculation of the Net Asset Value. Since then, with the continuity of some former Arch staff who have joined Spearpoint, we have focused our initial efforts on certain direct deals where we felt that urgent restructuring was required. These are highlighted where appropriate. Redemption orders have now been placed for all hedge fund holdings, although a large proportion of those remaining are either gated, or in the middle of potentially lengthy unwind processes. We will be providing further information through factsheets every two months.

Fund Objectives

Current Objective: The investment objective of ARL Private Finance IC Ltd ('the Fund') is to provide Shareholders over the medium to long term with capital appreciation through an economic exposure to a diverse range of investments in private finance selected by the Investment Manager.

Proposed Objective: The directors have written to all shareholders following consultation with the larger shareholders and will be proposing at the EGM to be held on the 28th January 2010 that the investment policy be restated as follows: "The Investment Manager will manage the Fund's portfolio with a view to realising its assets within the shortest period of time consistent with achieving a reasonable realisation price for such assets and with the intention of disposing of all such assets within 5 years. Realisations will be managed, as far as possible, with a view to ensuring regular and consistent distributions of proceeds to Shareholders."

Holdings

Investment	Currency of Investment	Amount Invested (in Currency of Investment)	Amount Returned (in Currency of Investment)	Current Value of Remaining Holding (in Currency of Investment)	Current Value of Remaining Holding (in GBP)	Description of Investment
Shipping Deal 1	GBP	15,293,157	0	2,785,418	2,785,418	See attached note.
Aarkad Plc	USD	10,000,000	7,143,750	1,128,603	686,540	Fund focussed on Property Bridging Finance in the UK. The fund is currently suspended and unwinding. Land/Property is currently being sold/auctioned in order to return cash to investors during 2010.
Ark Royal Fund Ltd	USD	10,000,000	0	7,423,791	4,515,670	Fund investing primarily in Life Settlements, Trade Finance, US & Energy-related Real Estate. Currently suspended and unwinding, the manager is seeking exits from positions while preserving value. Repayment estimated to be over the next 3+ years.
Medley Opportunity Fund	USD	8,000,000	493,250	8,585,060	5,222,056	Fund investing in a diversified portfolio of corporate credit and asset-based investments primarily in North America, Latin America, Western Europe and Asia. Currently unwinding, repaying cash to investors as positions mature/are exited over the next 3+ years.
Hedge Fund 1	USD	8,000,000	5,845,252	2,391,134	1,454,461	Fund investing in non-investment grade, floating rate, senior secured or unsecured loans, loan participations and other securities issued in public and private markets. Currently unwinding, repaying cash to investors as positions mature/are exited during the next 2.5 years.
Pentagon Bernini Fund Ltd	USD	7,000,000	796,838	5,918,672	3,600,165	Multi-strategy investment fund with a focus on structured debt, special situations and facilitation opportunities. Fund suspended and unwinding, aiming to preserve investor capital while exiting underlying positions. Unknown repayment timeline.
BMS Specialist Debt Fund Ltd	GBP	4,287,860	0	4,599,273	4,599,273	Private Finance focused fund. The Cells collectively own 100% of the fund which is a closed-ended company and trades as a share making an exit difficult. We are currently in discussions with the manager regarding the future of the fund. Performance to date has been good.
Arche Fund Ltd	USD	5,000,000	0	0	0	Asset Based Lending Fund with Investments in Life Settlements, US and Indian Real Estate. The fund is currently suspended due to it's leverage facility being called and the underlying assets being seized by the lender. Recovery value is likely to be zero.
Financial Partners Loans	USD	2,305,234	0	0	0	Series of loans made to an International IFA business now in default, currently being restructured with the borrower. Recoverability dependent on agreement of restructure and success of restructured entities, but this is uncertain.
Lonscale Mezz Funding Note	GBP	2,576,756	0	0	0	See attached note.
Scipion African Opportunities Fund SPC	USD	2,078,600	450,000	1,919,463	1,167,557	Fund focused on structured trade finance and other emerging market investments with an African focus. Redemption lodged and proceeds due in Q3 2010.
Noble Venture Finance II Fund	GBP	2,069,150	0	1,868,545	1,868,545	Venture Finance Fund specialising in providing debt to, and receiving equity rights in, venture capital stage companies across Europe. The Cells collectively own a significant proportion of the equity of the fund. We are uncomfortable with the gearing along with certain other features of the fund and are currently in discussions with the fund manager regarding these issues.
Shipping Deal 2	EUR	663,333	0	476,667	435,014	Finance of the building of two chemical product tankers in China. The funds remain in escrow and we are currently working to recover these amounts as it is unlikely the vessels will now be built.
Cautley Ave Mezzanine Finance	GBP	495,000	0	0	0	Loan secured by property asset. Due to the fall in property prices the asset value is now less than the bank mortgage on the property which ranks above this loan in terms of repayment. Likely recovery zero.
Bush Road Mezzanine Finance	GBP	367,000	0	0	0	Loan secured by property asset. Due to the fall in property prices the asset value is now less than the bank mortgage on the property which ranks above this loan in terms of repayment. Likely recovery zero.
Holdings in Other Arch Funds						
Arch Private Finance IC Ltd	GBP	31,896,425	6,546,242	16,501,927	16,501,927	Equity in Arch Private Finance IC Ltd marked at the latest available NAV. Exit to be sought as part of a wider unwind of the Intra-Arch fund holdings.
Arch Treasury IC Ltd	GBP	1,073,488	0	0	0	Equity in Arch Treasury IC Ltd, marked at zero due to the low value of underlying investments held making any recovery unlikely.
Other						
Cash	GBP				2,244,495	

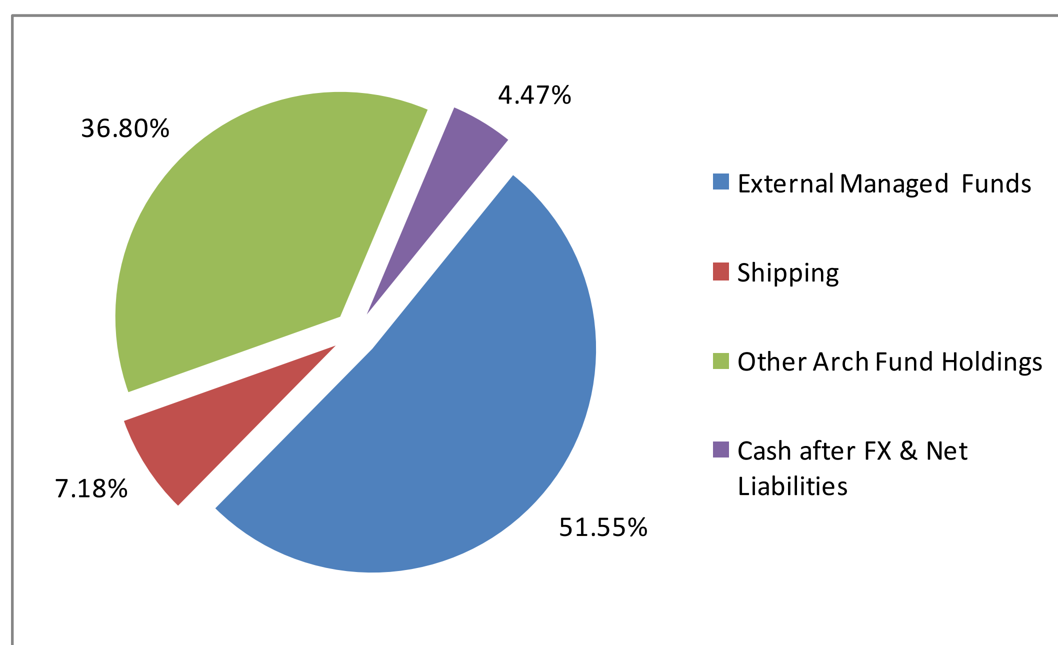
FX Hedge MtM	GBP	0
Other Net Liabilities	GBP	-332,644
Total		44,841,879

N.B. - The 'Shipping Deal' and 'Hedge Fund' investments have been named as such for reasons of confidentiality.

Performance (since December 2008)

	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09
NAV per Share	1.0975	1.0900	1.0777	0.7921	0.7675	0.7590	0.7329	0.6832	0.6820	0.6090	0.5807	0.5696
% Change		(0.7%)	(1.1%)	(26.5%)	(3.1%)	(1.1%)	(3.4%)	(6.8%)	(0.2%)	(10.7%)	(4.6%)	(1.9%)

Investment Allocation



Additional Information

- The Fund is listed on the Channel Islands Stock Exchange (CISX) and official announcements relating to the Fund can be found on the exchange's website (www.cisx.com) under the 'CISX Market News' section.
- The financial year-end for the Fund is 31st March and the audited Report and Financial Statements can also be found on the CISX website.
- The Annual Management Charge for the Fund remains at 1.5%.
- The Performance Fee for the Fund remains 10% of performance above the Cummulative Hurdle Rate 7%.
- The High Water Mark for the Fund will be reset as the higher of: i) The November end-of-month NAV, ii) The arithmetic average of the end-of-month NAV's, for the 9 data points between March and November 2009 inclusive. This will be published once it has been agreed by the board.

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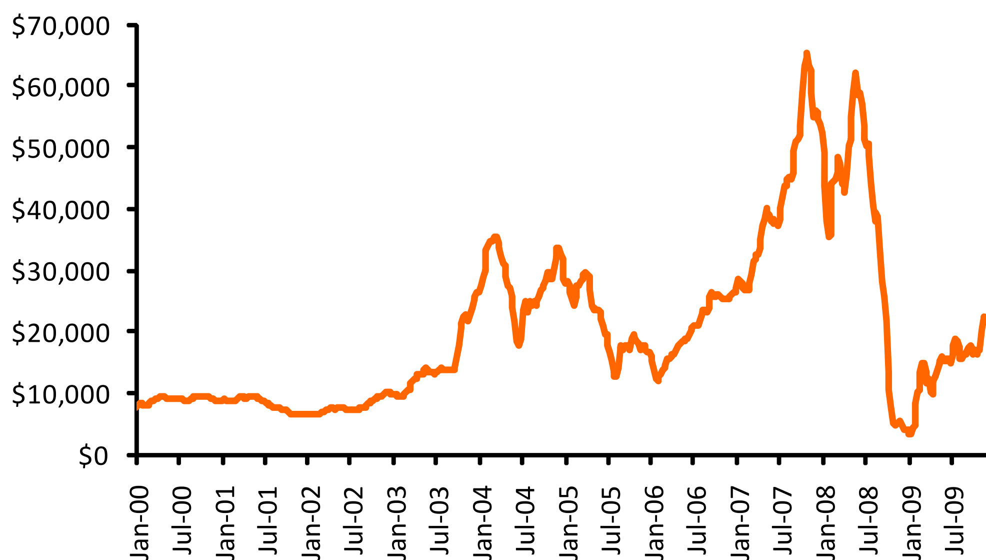
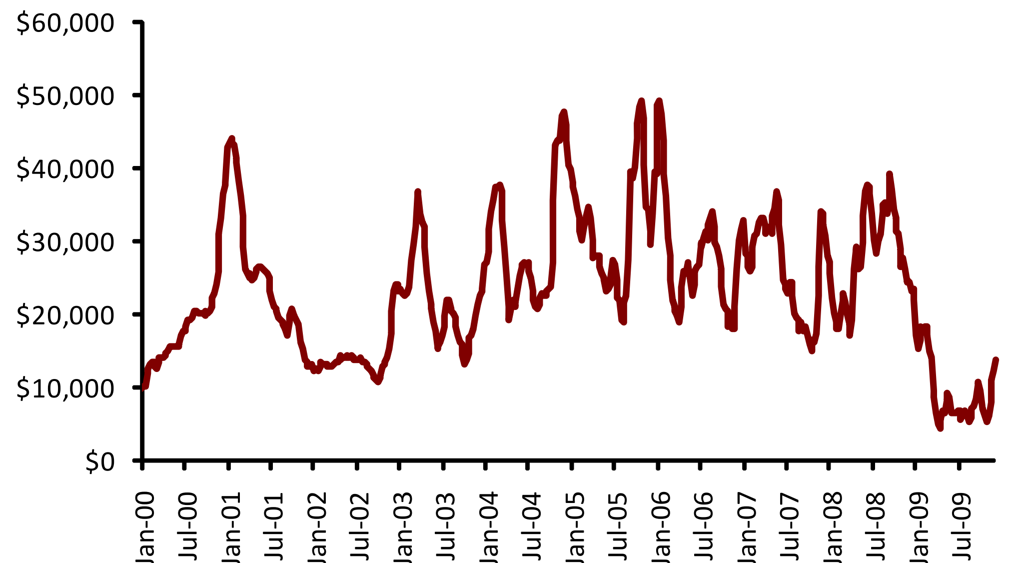
Market Overview

The Bulk Carrier markets experienced a steady rally over the second half of 2009 having reached a decade low in June. They are now at levels which enable operators of vessels of the type the funds have invested in to earn potential profits of around $8,000 to 10,000 per day all other things being equal. Commodity markets, and commodity trade, may be susceptible to volatility in the coming year, so whilst we think the longer term fundamentals are recovering nicely, 2010 could see further volatility in this market.

The Product Tanker markets had a tougher year. Having withstood the early months of the post-Lehman meltdown the market finally succumbed at the end of the first quarter. The charter market remained in the doldrums for most of 2009. This was reflected in the fact that employment was difficult to come by, and even when it was available, it was often at rates below the $7,000 a day or so required for vessels to break even.





Rates have rallied recently, and we remain optimistic that this will continue into 2010, with oil price support feeding through to increased trade flows as producers turn the taps on, and refineries become active again.

Deal Background

The funds have deployed in excess of £92mm into debt financing of a fleet of ships comprising both Bulk Carriers and Product Tankers. The vast majority of this was deployed during the peak of the boom in 2007 and 2008. Although the funding was provided in the form of debt it was always with hindsight likely to behave in substance as equity given the high levels of debt provided to the structure. The funds deployed what represented a significant proportion of the overall assets of the funds. The success or failure of this one deal is, therefore, critical to the value which will eventually be returned to fund investors.

The ships are typically “handy size” vessels and the typical tonnage of each vessel is around 40,000 DWT.

The summary of the fleet is as follows:

	Bulk Carrier	Single Hull Product Tanker	Single Hull Product Tanker	Under Conversion	Bulk Carrier	Double Hull Product Tanker	Single Hull Product Tanker
Available for employment	Y	N	Y	N	Y	Y	Y
Currently employed	Y	N	Y	N	Y	Y	Y
Dead Weight Ton (DWT)	47,000	39,000	39,000	40,000	38,000	40,000	40,000
Build Date	1985	1995	1996	1988	1990	1990	1991
Remaining Life (Yrs)	5.5	15.5	16.5	8.5	15.5	10.5	11.5
Conversion / Modification Plan	NA	Undergoing modification that will enable it to trade as a reduced size Double Hull Vessel	Will undergo modification that will enable it to trade as a reduced size Double Hull Vessel. Planned for Q3 2010	Conversion to Bulk Carrier. Planned by end Q2	NA	NA	Possible modification / conversion by end 2010, depending on market

When the vessels were originally acquired it was planned that they would undergo a series of conversions either to Geared Bulk Carriers or to Double Hull Carriers. The borrower was selected because it had significant experience in both shipbuilding (together with its own shipyard) and ship operating. Historically, conversions have been successful but have been over time and over budget. The conversion program was interrupted by the downturn in the shipping market and the cash flow issues experienced by the structure.

In particular:

(1) Single Hull Product Tankers do need to operate as double hull vessels as Single Hull tankers are being prohibited in most (though not all) countries in 2010. However, rather than undertaking full conversions which would be expensive and could not be justified given current charter rates, we have authorised more modest “modifications” which enable the inner hull to be used. Capacity is reduced but at least the vessels can bring in cash to cover costs, and hopefully make a small operating profit. If the market picks up significantly we will review whether full conversions are justified. It was felt critical to take this action to stem monthly losses in the order of $500,000 but we did not wish to commit sufficient capital to undertake a full conversion whilst so much market uncertainty exists. This was seen as a “cost effective work around” which would stem losses and get vessels in a position to trade.

(2) We have authorized the completion of the remaining bulk carrier, to take place by end of Q2. As at the end of November this vessel was stuck in the ship yard. The conversion had begun but been stopped due to a lack of funds. To give a flavour of the economics, $4.5mm is required in order to complete the conversion. Assuming that the vessel can earn $10,000 net for 330 days in the year, this means that a marginal investment of $4.5mm returns $3.3mm within 1 year of operation. At the moment the vessel is idle in the ship yard and in a condition where it is not able to trade. Again we felt it was important to stem losses and get the vessel working. Without conversion the vessel may need to be scrapped.

Position as at 30th November 2009

At the 30th November the fleet was valued on an "as is basis" by Shipbrokers at $43.3m. The loans themselves are held in the NAV of the funds at $43.3mm. This is based on a disposal value of the ships in their current condition, including an attribution of scrap value to the bulk carrier that is awaiting conversion. The operating entity was desperately short of working capital. The ships had run up a number of priority maritime liens. There were also ship yard debts. Whilst the shipyard debt may have been disputed as a priority lien it was "as good as" in so far as payment would have been required to actually extract a vessel from the yard even if it was to then be scrapped. The existing loan had been restructured but went into default again in October 2009.

We faced a simple choice. Put additional capital into the existing structure, allow it to collapse or seek to restructure again. Putting additional capital into the existing structure was rejected because we felt that there existed a number of conflicts between the owner, shipyard and the ship operator and we wished to accelerate the process of putting in place tight financial control within the structure. We also rejected allowing the existing overall structure to collapse. If we had done this we believe we would have been seeking to sell vessels close to the market bottom. The impaired nature of some of the vessels together with outstanding priority liens would have made for a difficult recovery. We did not believe that we would have recovered anywhere near $43m as a distressed seller in bankruptcy. We elected to restructure again based on the following principles

1) Reduced conflicts of interest and simplified ownership structure
2) The borrower putting additional capital into the structure
3) Tight financial transparency, control and monitoring
4) Simplified enforcement if necessary
5) Detailed cash flow analysis to determine how much debt the structure can really carry in varying market conditions

We appreciate that, given the size of the funds exposure to this one deal, the success of this restructuring will be a critical determinant of the ultimate level of recovery for investors. It is also less than ideal given the time taken to maximize recovery (once this deal is performing we will need to consider our exit given the time frame over which we believe that investors are expecting a return of their capital). Nevertheless we believe that allowing a collapse or simply putting additional capital into the existing deal are not viable alternatives.

Restructured Deal

Whilst the restructuring has involved a further financial commitment by the funds, it has also required the borrower to commit additional funding, simplified the conflicted ownership structure and afforded us greater financial information, together with more control in a default scenario. In addition we have received equity style profit participation in the event that the overall fleet can successfully trade its way out of trouble.

The restructuring has involved writing down the face value of the existing loans to $80mm and agreeing a repayment schedule over 12 years. We have undertaken detailed cash flow modeling and believe that this is the maximum level of debt that the overall structure can bear. Whilst this would represent an uplift from the $43.3m valuation of the fleet it is not a good return over the period since the loans were originally made and will disappoint investors. It is nevertheless the option which we believe is most likely to optimise the potential return from the point at which we find ourselves.

In addition, we have made $13.3mm of additional cash available in total, under conditions, to cover conversions and modifications, outstanding payables plus a working capital buffer for 2010. This has been provided from a number of different funds.

In return for this the borrower made a number of its own contributions, including personal cash of the principal totaling $3mm over 2 years, writing off of $2.5mm of payables to the shipyard and turning the balance into an interest free five year loan, and providing a corporate guarantee from the ship manager.

Moreover, we have accelerated the financial control process and insisted on increased ease of enforcement should this restructuring fail. We have weekly access to agreed financial information the failure to provide which will constitute an act of default. The Board of the funds is copied directly into this monitoring information so that they have immediate notice of any improvement or deterioration. We also receive reports from the independent third party firm which monitors progress and costs associated with modification and conversion.

The write down number was chosen in order to give investors a reasonable return of capital over a realistic time period in light of market conditions and the point from which we were starting, whilst still providing the borrower with enough incentive to complete conversions and operate the fleet.

In the event of a significant market upturn, the funds will benefit in two ways. First, earnings must be applied to repaying debt early. Second, the funds also retain "equity kickers", and so will participate further in the upside if there is a significant market improvement.

The next 12 months will be critical in determining the success of this restructured deal and we will keep shareholders informed of progress. Once we can demonstrate that the loan is performing we will consider options to shorten the timescale if viable.

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Structure of Company

Lonscale is a company incorporated in the Isle of Man, and was the acquisition vehicle used to purchase 100% of the Clubeasy group of companies. Lonscale is majority equity and debt owned by the Guernsey Cells. The remainder of the equity is owned by a third party fund.

The prime activity of Clubeasy is student accommodation in the UK. Beneath Lonscale are 7 companies, one of which is a student accommodation property management business (OpCo), and the other companies are property owning companies (PropCo's), with the majority of this property used for student accommodation purposes.

Company Overview

Business Activity

Clubeasy is one of the ten largest operators of student accommodation in the UK, operating over 2,600 rooms for students in Hull, Lincoln, Loughborough, Exeter and Durham. Additionally, Clubeasy manage multi-let (HMO) and student accommodation properties in London with another 1,000 rooms under management.

The six PropCo's own most of the properties managed by the OpCo, with approximately 450 different properties managed, with any other properties owned by the Guernsey Cells. The properties managed in London are owned either by the Guernsey Cells, or a third party owner.

A summary of the status across the towns Clubeasy operates in:-

a) Lincoln
- Student Population 12,000
- Clubeasy 913 beds includes 320 rooms in halls remainder mix of houses and HMO's

b) Hull
- Student Population 12,000
- Clubeasy 991 beds mix of houses and HMO's

c) Durham
- Student Population 14,000
- Clubeasy 203 bed spaces mix of houses and HMO's

d) Exeter
- Student Population 15,525
- Clubeasy 219 bedspaces mix of houses and HMO's 46 rooms in halls

e) Lougborough
- Student Population 14,000
- Clubeasy 451 bedspaces – 53 in halls remainder in houses and HMO's

Debt Situation

Clubeasy was purchased with a considerable amount of debt provided by 10 bank and building society lenders. Despite falls in interest rates in the past year, the level of debt has made it difficult to completely revamp the operation.

Ability to Change Rental Income

One of the biggest impediments to changing outcomes at Clubeasy, as with any student accommodation business, is the long lead time required to implement change and see the results, particularly with the rental receipts which is the prime income source. This problem stems from the requirement for the company to operate fully within the student calendar year. For the next student year, beginning September 2010, the rents are decided during November and December 2009, and the letting season starts in January 2010. By April 2010, 70-80% of all properties will be let, with the remainder taken up later by foreign students, post-graduates and others. Current rent changes therefore do not flow through to the bottom line until the September 2010 – August 2011 year. Accordingly, planning has to run nearly 21 months or so in advance.

Forecast Profitability

The forecast profitability of Clubeasy has improved substantially through aggressive revenue increases, the cutting of costs and a rationalization of the business, but not sufficiently. In the interim, additional debt funding required during this period was provided solely by the Guernsey Cells, which has proved an additional debt burden to Clubeasy.

Given the long lead times to see all the benefits flow, execution risk, and the continued requirement for fresh capital, it was decided that the best outcome for investors in the Guernsey Cells, would be to sell the Clubeasy group.

Potential Courses of Action

We have explored potential sales to third parties but have dismissed this course of action. Any indications on price were low due to complications associated with the sale.

We have, of course, explored the option of fixing the business ourselves with a view to making it more saleable in the future. The Guernsey Cells representing the debt holders would probably preempt this by taking 100% control of the business. We believe that this would require a significant capital injection from the Guernsey Cells and the risks associated with execution are high. We have evolved a plan to fix the business but regard this as Plan B.

We have concluded that the lowest risk and best course of action for the Guernsey Cells is to agree to a sale to the third party minority shareholder (the 'Potential Buyer'). The structure of the deal is far from perfect but transacting with the Potential Buyer would make sense since:

- It knows the business having originally commissioned due diligence 3 years ago and therefore does not require significant due diligence.

- It has a representative on the Board of Lonscale and so it also has a closer understanding of the strengths and weaknesses of Clubeasy and the change required to bring about a turnaround.

- It is motivated to effect the transaction quickly.

Structure of the Deal

A transaction with the Potential Buyer would provide investors with many tangible benefits that would not have been realizable under other scenarios. Some of the key points include:

- Upon execution of the MOU :-

    I. An up-front payment in the form of shares in various Guernsey Cells of the Arch Guernsey ICC already owned by the buyer which shall be non-returnable if the transaction fails to complete (“Initial Consideration”).

- Upon completion of the transaction :-

    I. An amount of cash (“Cash Consideration”); plus

    II. A significant further holding of shares in various Guernsey Cells of the Arch Guernsey ICC already owned by the buyer (“Non-Cash Consideration”); plus

    III. A considerable further amount of cash to be paid according to an agreed schedule beginning in May 2010, and completing in less than 2 years. (“Deferred Cash Consideration”).

- In the event of default on payment of the Deferred Cash Consideration, ownership of 100% of Lonscale will revert to the original Cell owners, with clear provisions in the documentation to protect their rights during external ownership. In any case, at that time the Guernsey Cells are likely to be in a better position than the current position in that the Initial Consideration, Cash Consideration, Non-Cash Consideration, plus any Deferred Cash Consideration already paid, will be retained, and 100% of Lonscale will be owned by the Guernsey Cells. When Lonscale is subsequently sold, the proceeds would be used firstly to ensure that the full initial sale price was received by the Guernsey Cells, and thereafter the purchasers would see the return of their payments made prior to the default. Any remaining excess would be retained by the Guernsey Cells.

- The Guernsey Cells also retain, for a number of years, certain percentage rights to windfall gains and property appreciation from current valuations.

There are a variety of other minor terms but these represent the key points. The rationale being that the Guernsey Cells are in a much better position disposing on these terms than continuing to fund the heavy capital requirements of the operation.

Summary

We believe that total consideration provides a reasonable exit value given that we do not then have to commit additional funds and run the execution risk associated with turning the business around further. We believe that there may be some property value in the structure which can be realized into a recovering property market, and have therefore protected ourselves to some degree from underselling this through certain property performance rights, plus rights over certain other aspects which could provide upside in the medium term. The deferral of consideration is clearly less attractive than an up-front payment, and in this regard we are protecting the Guernsey Cells via an agreed ability to closely monitor the business until all payments are made, with restrictions on the business to protect it, and having further plans in case we have to step back in. If this occurs, then the Guernsey Cells are likely to be in a better position than the current position, and therefore the downside to the Guernsey Cells is fairly protected. The “soft” element in the consideration represented by the shares in the Arch Guernsey Cells is not ideal but we believe this can be quickly monitarised through the proposed share buyback mechanisms. The MoU was signed on the 19th January 2010. Assuming the transaction completes there will be an uplift in the value of this holding, it is likely that this will only be recognised as value is actually received according to the deferred schedule of payments.

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