

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 Arch cru 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	18,305,286	0	3,334,032	3,334,032	See attached note.
Medley Opportunity Fund	USD	6,000,000	2,888,028	3,803,468	2,313,545	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.
Aarkad Plc	USD	3,500,000	2,381,250	487,280	296,417	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.
Arche Fund Ltd	USD	2,500,000	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.
Hedge Fund 1	USD	2,500,000	1,781,003	1,187,251	722,172	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.
LM Isis Opportunities Fund Ltd	USD	2,036,577	1,172,342	2,870	1,746	Fund investing in primarily below-investment grade debt securities, including performing senior secured leveraged loans and high yield bonds. Fund almost fully unwound, final payment due pending audit completion.
FAM Global Structural Alpha Select	USD	4,000,000	2,776,226	455,600	277,129	Asset Based Lending Fund of Funds. Remaining fund holdings are suspended and unwinding with expected investor repayment over the next 2 years.
Bond Capital Partners I Ltd	EUR	1,803,149	0	1,130,698	1,031,895	Asset Based Lending fund with focus on Emerging Markets. 50% of underlying investments performing, 50% written-off/being restructured. Cash returned once underlying positions are exited, value and timing of recovery uncertain.
Noble Venture Finance II Fund	GBP	1,608,649	0	1,517,600	1,517,600	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 3	EUR	1,330,000	0	900,000	821,355	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.
Financial Partners Loans	USD	1,152,617	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.
Growth Management Limited	USD	1,201,143	293,726	859,645	522,898	Diversified Emerging Market Investment fund focused on Credit, Trade Finance and Private Equity. Currently unwinding, repaying funds to investors as positions mature/are exited over the next 3+ years.
BMS Specialist Debt Fund Ltd	GBP	2,000,000	1,023,060	1,214,400	1,214,400	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.
Stewardship International Fund Ltd	USD	1,000,000	167,358	0	0	Premium Finance Life Insurance fund which is currently suspended due to the number of redemptions. Many policies securing the lending have lapsed due to both insufficient cash to pay premiums and, a change in the valuation of the policies because of wider market-adopted life expectancy increases. Recovery value is likely to be zero.
cru Investment Management Loan	GBP	263,900	0	45,679	45,679	Loan to the funds' distributor which is now in default. The loan collateral was the borrower's revenue from a Distribution Agreement but this has now ceased. Loan now marked to the value of the only remaining asset, a holding in one of the Cells. Timing and value of any recovery uncertain.

Holdings in Other Arch Funds

Arch Treasury IC Ltd 7% Funding Note	GBP	1,750,000	1,382,412	57,177	57,177	Loan partially repaid, remainder marked to the current value of the underlying assets of the borrower. Recoverability dependent on performance of underlying investments of the borrower.
Arch Treasury IC Ltd	GBP	446,118	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

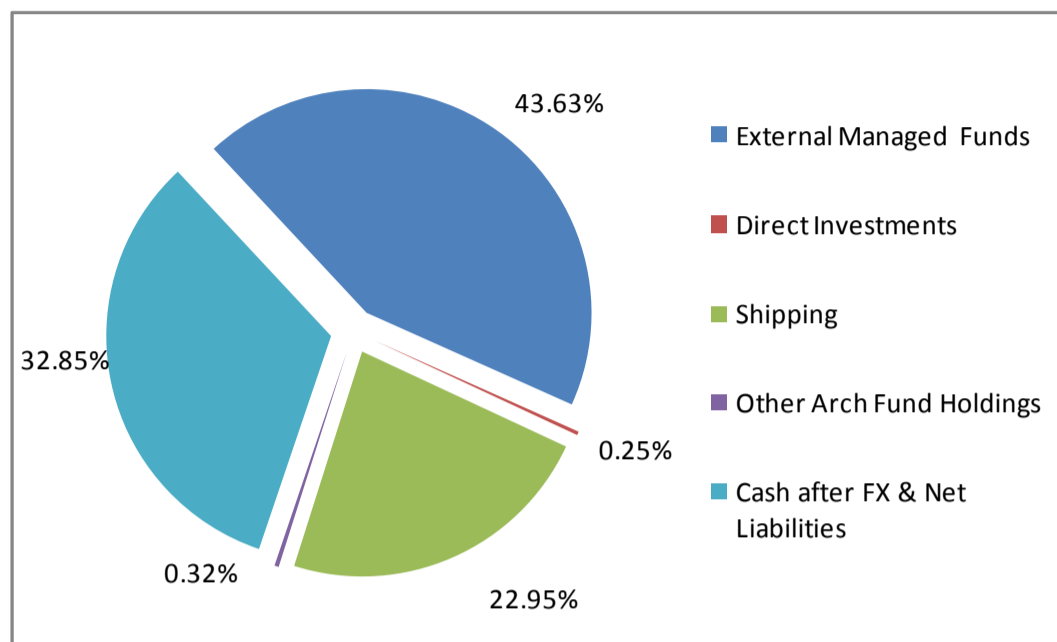
Cash	GBP	6,428,654
FX Hedge MtM	GBP	-254,930
Other Net Liabilities	GBP	-226,771
Total		18,102,980

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	1.2430	1.2439	1.2193	0.7912	0.7652	0.7637	0.7800	0.6965	0.6895	0.5879	0.5694	0.5653
% Change		0.1%	(2.0%)	(35.1%)	(3.3%)	(0.2%)	2.1%	(10.7%)	(1.0%)	(14.7%)	(3.1%)	(0.7%)

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 1.25%.
- The Performance Fee for the Fund remains 10% of performance above the Cumulative Hurdle Rate of three month Sterling LIBOR + 4%.
- 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.

Disclaimer

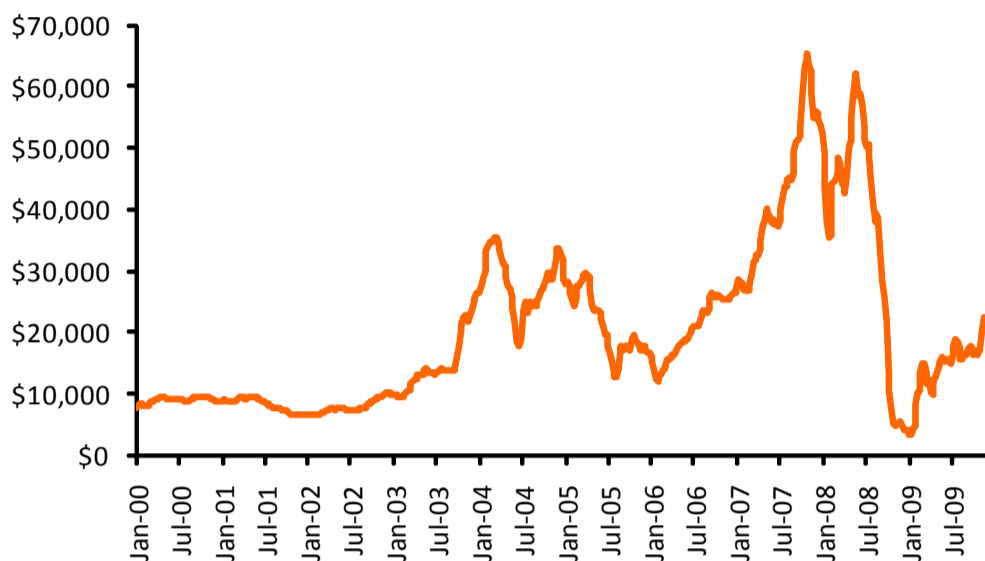
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Market Overview

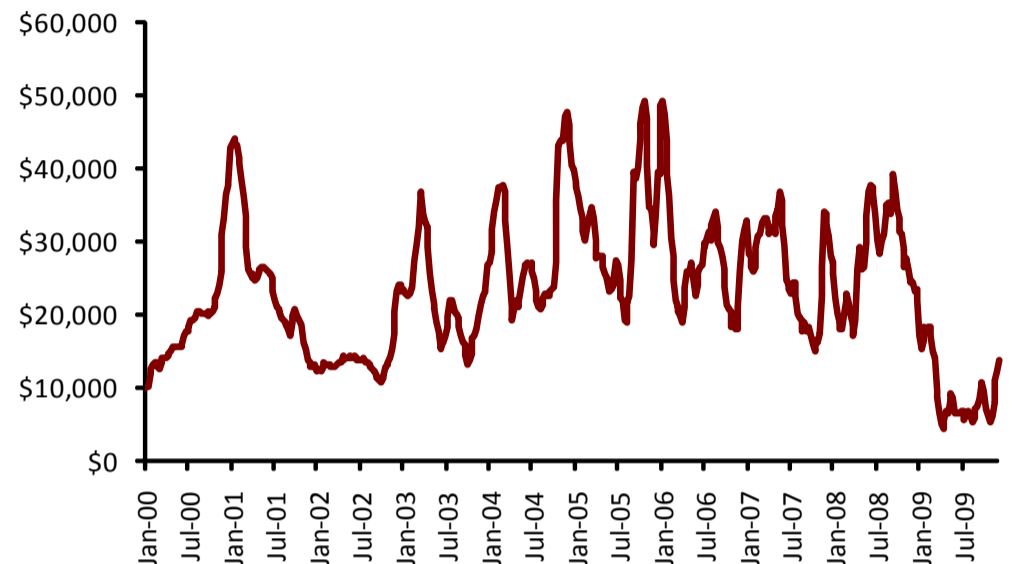
The Bulk Carrier markets experienced a steady rally over the second half of 2009 having reached a decade low in June. They are now at levels which enable operators of vessels of the type the funds have invested in to earn potential profits of around \$8,000 to 10,000 per day all other things being equal. 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.

Bulker Markets: Handymax, 45,000 dwt, Average Trip Earnings
Source: Clarksons Research



Tanker Markets: Clean Products Average Earnings
Source: Clarksons Research



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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