

Manager Commentary

Since the date of this factsheet, the suspension of the shares of the Fund on the CISX has been lifted allowing shareholders access to a degree of liquidity. At the asset level, the final cash advances made available to the borrower in Shipping Deal 1 are to be drawn in June allowing the completion of the conversion works, and significantly meaning an end to the initial negative NAV impact of these drawdowns. As mentioned in February's factsheet, the fleet in Shipping Deal 1 received its semi-annual independent broker valuation as at 31 March which saw a modest rise in the overall valuation. The Intra-ICC shares due as part of the Lonscale sale were received during March and appear as new holdings below. These have subsequently been sold in to the buyback process generating cash for the Fund. In addition, the first deferred cash payment also due from the sale of Lonscale was received by the Fund in June. The equity holding in Execution Noble benefited from the imminent merger with BESI with the cash plus share offer almost doubling the value of the holding. Finally on the asset front, the Fund also enjoyed a large cash distribution during March from one of its hedge fund holdings (c. \$900k). Now all of the initial deal restructuring work has been completed we are moving in to a more conventional run-off phase, where the assets should continue to liquidate and return capital to the Fund with less intervention from ourselves. As a result, we anticipate there will be less to report during this time, we will therefore begin producing factsheets on a bi-monthly basis going forward as previously advised. With the financial year end for the SPL funds being March, a large amount of extra work has been required for these valuations. Although as yet unaudited, this has led to the delay in the publication of the March NAV and subsequent factsheet.

Share Trading

A significant landmark in the process of providing liquidity to investors was reached on 31 March with the lifting of the suspension of trading. As at 17 June when these factsheets were finalised, the fund had spent £5.242m in buying back shares. Any investor wishing to sell in the market should request their stockbroker to contact the CISX market maker. Details can be found at www.cisx.com.

Fund Objective

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

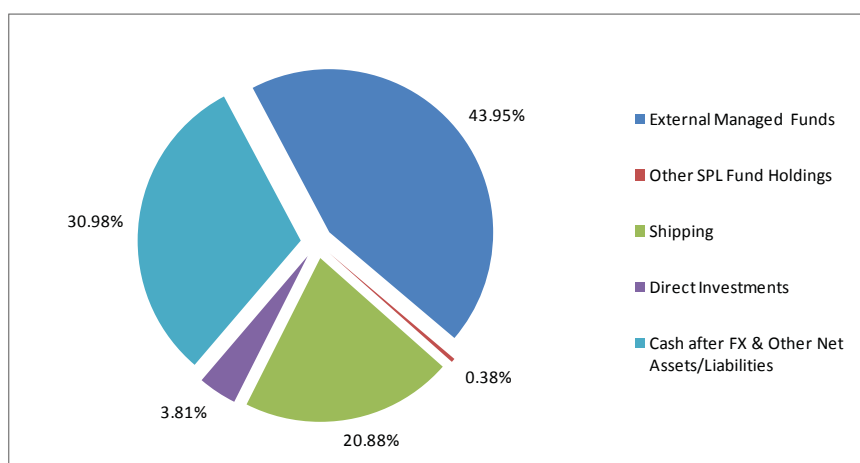
Investment	Currency of Investment	Value as at 26 Feb 10 (in GBP)	Cash Movement	Value as at 31 Mar 10 (in GBP)	Contribution to Overall Monthly NAV Movement	Comments / Additional Information
Shipping Deal 1	USD	11,957,102	334,431	12,527,500	0.32%	Further drawdowns in the month were more than offset by a 4%+ uplift in the valuation of the fleet based on the six monthly independent broker valuation carried out by Clarksons.
BMS Specialist Debt Fund Ltd	GBP	8,659,290	-	8,337,437	(0.44%)	Monthly fund revaluation based on the NAV provided by the fund's administrator.
Medley Opportunity Fund	USD	6,752,716	-	6,771,320	0.03%	Monthly fund revaluation based on the NAV provided by the fund's administrator.
Ark Royal Fund Ltd	USD	4,443,160	-	4,448,563	0.01%	Monthly fund revaluation based on the NAV provided by the fund's administrator.
Noble Venture Finance II Fund	GBP	3,773,692	-	3,510,533	(0.36%)	Fund revaluation based on the monthly statement provided by the fund manager.
Hedge Fund 1	USD	2,330,120	(606,598)	1,824,778	0.14%	Monthly fund revaluation based on the NAV provided by the fund's administrator. A cash distribution of around 25% was received during March.
Caritas Royalties Fund (Bermuda) Ltd	USD	1,757,126	-	1,794,191	0.05%	Monthly fund revaluation based on the NAV provided by the fund's administrator. Redemption submitted for the next available dealing date in June, with proceeds due in September.
Santa Maria Linked Funding Note	EUR	1,672,098	-	1,513,627	(0.22%)	Prior to the auction, 3rd parties with claims against the vessel lodged priority liens with the Greek courts. These liens are payable before the claim of the SPL funds which has further eroded recoverability. We are currently negotiating to reduce these claims were possible before taking ownership of the Santa Maria. This will bring to an end a long and painful process of taking control through the Greek courts. We hope now to realise some value from the asset
Growth Management Limited	USD	1,424,816	(31,002)	1,406,486	0.02%	Monthly fund revaluation based on the NAV provided by the fund's administrator. Small distribution received in March.
Execution Noble - Equity	GBP	656,250	-	1,265,732	0.83%	Further merger pending with Banco Espirito Santo de Investimento but this is awaiting regulatory approval. Uplift in NAV based on the valuation of the cash and share offering due to be received once the merger completes.
Bond Capital Partners I Ltd	EUR	1,387,518	-	1,199,258	(0.26%)	Fund revaluation based on the quarterly investor report provided by the fund manager.
Pentagon Bernini Fund Ltd	USD	1,136,308	-	1,139,674	0.00%	Monthly fund revaluation based on the NAV provided by the fund's administrator.
Tranquil Insurance Company Loan	GBP	1,008,548	-	1,010,328	0.00%	Loan performing in line with expectations. Interest payment received during March. Full early repayment agreed and cash received in April.
Aarkad Plc	USD	1,674,351	-	1,007,525	(0.91%)	See attached update.
Shipping Deal 3	EUR	773,597	-	772,402	(0.00%)	There has been no real movement on this asset since the February factsheet. The arbitration process continues and we hope to have more to report soon.
Hedge Fund 2	USD	652,810	-	613,470	(0.05%)	Monthly fund revaluation based on the NAV provided by the fund's administrator.
The Cloud Loan Note	EUR	491,865	(50,696)	443,910	0.00%	Loan performing in line with expectations. Monthly principal and interest repayment received during March.
Shipping Deal 2	EUR	416,976	-	416,651	(0.00%)	There has been no real movement on this asset since the February factsheet. The arbitration process continues and we hope to have more to report soon.
Arche Fund Ltd	USD	-	-	-	-	
BMS Finance Ltd - Warrant	GBP	-	-	-	-	

Financial Partners Loans	USD	-	-	58,763	0.08%	In April we accepted offers from the management of two of the new devolved regional businesses for the shares held by the SPL funds. \$685k has since been received spread across various SPL funds and this uplift has been reflected in the March valuations.
Lonscale Mezzanine Funding Note	GBP	-	-	-	-	Debt forgiven in exchange for shares in other SPL funds previously held by the seller and received during March. These are listed as new holdings below. The scheduled cash consideration will only be recognised upon receipt.
Stewardship International Fund Ltd	USD	-	-	-	-	The wind-up of this fund is now expected to be completed during Q3 2010 with no further return to investors.
Holdings in Other SPL Funds						
SPL China Energy (NR1) IC Ltd	USD	33,676	-	33,568	(0.00%)	Monthly fund revaluation based on the NAV provided by the fund's administrator. Liquidation of the fund is due to begin shortly, pending shareholder approval.
SPL Private Finance (PF1) IC Ltd	GBP	6,151	-	50,299	0.06%	Shares received in part settlement of the Lonscale sale. This holding has since been sold in to the buyback program.
SPL Finance Opportunities (PF3) IC Ltd	GBP	-	-	30,395	0.04%	Shares received in part settlement of the Lonscale sale. This holding has since been sold in to the buyback program.
SPL Structured Finance (PF4) IC Ltd	GBP	-	-	11,787	0.02%	Shares received in part settlement of the Lonscale sale.
SPL Treasury (AT1) IC Ltd 7% Funding Note	USD	138,914	-	-	(0.19%)	Debt written-off in exchange for all other equity holders giving up their shares pro-rata to the debt holders in order to simplify the capital structure. While this has decreased in value, there was a comparable increase in value in the equity held shown below.
SPL Treasury IC (AT1) Ltd	USD	-	-	149,478	0.20%	Equity received in exchange for the debt write-off shown above. Valuation based on the NAV provided by the fund's administrator.
Other						
Cash	GBP	22,599,211	133,221	22,745,575	0.02%	Increase in the value of cash due to currency movements.
Other Net Assets/Liabilities	GBP	(191,685)	220,644	(152,984)	(0.25%)	
Total		73,554,609		72,930,266	(0.85%)	

Performance (since March 2009)

	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10
NAV per Share (£ Class)	0.9331	0.8931	0.8966	0.8983	0.8399	0.8277	0.7366	0.7188	0.7081	0.6959	0.6925	0.7004	0.6945
% Change	(24.5%)	(4.3%)	0.4%	0.2%	(6.5%)	(1.5%)	(11.0%)	(2.4%)	(1.5%)	(1.7%)	(0.5%)	1.1%	(0.8%)
NAV per Share (€ Class)	0.7771	0.7677	0.7660	0.7660	0.7191	0.7165	0.6427	0.6271	0.6201	0.5920	0.5808	0.5698	0.5664
% Change	(26.6%)	(1.2%)	(0.2%)	-	(6.1%)	(0.4%)	(10.3%)	(2.4%)	(1.1%)	(4.5%)	(1.9%)	(1.9%)	(0.6%)

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 1%.
- The Performance Fee for the Fund is 10% of performance above the Cumulative Hurdle Rate of three month LIBOR for the currency of the share class + 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 subject to various adjustments. This will be published once it has been agreed by the board.
- The ISIN for the GBP Share Class is GG00B1LG1H76 and for the EUR Share Class is GG00B1M8X105.
- The Sedol for the GBP Share Class is B1LG1H7 and for the EUR Share Class is B1M8X10.
- Information relating to the Fund is also available on the SPL Funds website (www.splfunds.com).

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Background

The SPL funds invested in Aarkad plc ('Aarkad') at various stages during the first half of 2007. Aarkad was set-up to act as a feeder fund purchasing shares in the master fund, Heather Capital Limited ('Heather'). Heather in turn was set-up to invest in loans to borrowers selected by the Investment Manager. The main receiver of these loans was Mathon Limited ('Mathon'), a UK based company making short-term bridge finance loans in relation to property (commercial, residential development and land) predominantly in the North of England, Scotland and Ireland. Heather purchased loan notes issued by Mathon.

The SPL funds submitted redemption requests partially in April 2008 which were paid out and then for the remaining holdings in October 2008. Aarkad required six months notice for redemptions and these were therefore due for dealing in April 2009.

The global liquidity crisis resulted in both a raft of investor redemptions plus a lack of refinance opportunities for the ultimate borrowers and in January 2009, Aarkad suspended NAV publication due to a lack of liquidity, which meant that it could not meet pending redemptions. The last administrator produced NAV was therefore as at 31 December 2008.

In May 2009, the audited financial accounts for 2008 were released for Aarkad and Heather. They contained both loan impairment provisions and foreign exchange mark to market losses that were not reflected in the last published NAV. Also at this time, Aarkad investors were offered a restructuring package, which would effectively split the loan book in to short and longer-term share classes with differing mandates in terms of how they would go about returning capital to investors. The restructure proposal however, did not receive sufficient investor support and in August, investors were notified that a managed wind down was now being undertaken.

Due to the lack of market in the underlying property assets, the vast majority of borrowers were not in a position to repay their loans, as they could neither complete their projects nor find willing buyers. With borrowers in arrears, the lender had to begin the process to enforce on the loan collateral with a view to forcing the liquidation of the underlying assets. Updates released to investors indicated little progress was made during the latter half of 2009, although it was reported work was being done on alternative options to avoid properties ending up at auction where recovery values were likely to be low.

In March 2010, investors were notified that:

- i) Mathon had gone in to administration after first assigning its loan book to Heather in exchange for the write-off of the loan notes.
- ii) Heather had applied to be wound-up and a provisional liquidator appointed.
- iii) An EGM was scheduled for Aarkad investors to approve a proposed wind-up (this was subsequently approved with the same provisional liquidator appointed as for Heather).

Provisional Liquidator - Initial Findings

A provisional liquidator was appointed from Ernst & Young and he and his team has been working through the portfolio of loans. However, they have only received initial legal agreements for some of the loans and have not received any details of relevant correspondence, emails or spreadsheets between Mathon and the underlying borrowers since the loans were provided. They are now working to recover computer equipment that may contain this missing data.

Their initial investigations have found that at least 17 loans relate to land titles in relation to which borrowers are now subject to insolvency proceedings. In 14 of these cases, Mathon is the second ranking charge holder and the relevant solvency practitioner in each case has observed that there is not expected to be any recovery for Mathon. These account for £7.6m of the £258m (as at December 08 NAV) loan book. As a result, the liquidator is concerned that the majority of the loans due to Mathon are significantly impaired.

The last NAV provided by the administrator as at 31 December 2008 was \$1.6375 per share, while the audited financial statements as at this date reported a NAV of \$1.1849. This discrepancy was caused by both loan impairments and negative FX mark to market not being reflected in the administrator NAV. The Aarkad directors previously received advice from their legal counsel that the NAV could not be restated. The liquidator is investigating if there is further evidence not considered when this advice was received. Depending on their findings, they may take this restatement of NAV question to the courts. This is significant, as it will affect the level at which creditors, currently totaling \$65m are paid out, and thus the value attributable to remaining investors including the SPL funds.

The fund hedged its FX exposure up until October 2008 at which time the sole hedging provider pulled the FX line. The liquidator is also looking in to the possibility of a claim against the provider as the lack of hedging has detrimentally affected the fund to the amount of \$92m.

The liquidator concluded that at present, it is extremely difficult to place a value on the loan book given:

- i) The current lack of complete records.
- ii) The depressed state of the commercial property markets in which the loan collateral resides.
- iii) The perceived fire sale of assets meaning purchasers being liable to offer below market prices.
- iv) That the security over an unknown number of the loans are second charges.
- v) The realisable value of the underlying assets and personal guarantees provided for the majority of loans has deteriorated.

The liquidator also subsequently commented that, at present, they could only be confident in confirming there was sufficient value to cover the creditors. It should be noted they are still in the early stages of their investigations and are erring on the side of caution in the outlook that they give.

Going Forward

The creditors and investors of Aarkad approved the provisional liquidator taking on the roll of full liquidator; this requires formal court approval due in early July. Once this has been granted the liquidator will have increased powers to demand what is required to uncover the history of the fund. A creditor/investor committee has also been set-up to provide guidance as to their wishes.

Valuation

Since the March 2009 valuations of the SPL cells, the Aarkad holdings have been valued with a 75% provision against the last published NAV. In light of the liquidator's initial report, it was felt necessary to increase this provision to 85% in the March 2010 valuation. As further information is released by the liquidator, this provision may be adjusted accordingly.

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