

## 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. Up until the suspension of trading in March 2009, all Intra-ICC holdings were valued based on the mid-market share price. During the suspension period, the valuation basis was changed to NAV. One consequence of the lifting of the suspension of trading has been the return to pricing based on share price. The discounts to NAV at which these holdings are currently trading has resulted in a negative impact on the valuation of the Intra-ICC shares held. 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-IC 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. Finally, the Fund enjoyed a large cash distribution during March from one of its hedge fund holdings (c. \$700k). 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, only a very small number of shares had been bought back. 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](http://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
Medley Opportunity Fund	USD	5,583,616	-	5,599,247	0.03%	Monthly fund revaluation based on the NAV provided by the fund's administrator.
Ark Royal Fund Ltd	USD	4,846,857	-	4,852,751	0.01%	Monthly fund revaluation based on the NAV provided by the fund's administrator.
BMS Specialist Debt Fund Ltd	GBP	4,697,363	-	4,522,770	(0.39%)	Monthly fund revaluation based on the NAV provided by the fund's administrator.
Shipping Deal 1	USD	3,000,216	83,914	3,143,339	0.13%	Further drawdown's 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.
Pentagon Bernini Fund Ltd	USD	2,651,385	-	2,659,240	0.02%	Monthly fund revaluation based on the NAV provided by the fund's administrator.
Noble Venture Finance II Fund	GBP	1,844,708	-	1,716,067	(0.29%)	Fund revaluation based on the monthly statement provided by the fund manager. In recent months, the fund manager has taken a number of actions which we believe to be in the best interests of investors. These include the reduction of both leverage and the associated fees, along with a review of costs. We are still in ongoing discussions with the manager.
Hedge Fund 1	USD	1,669,018	(461,214)	1,346,704	0.31%	Monthly fund revaluation based on the NAV provided by the fund's administrator. A cash distribution of around 25% was received during March.
Scipion African Opportunities Fund SPC	USD	1,305,616	-	1,321,704	0.04%	Monthly fund revaluation based on the NAV provided by the fund's administrator. Full redemption submitted for end of June dealing date.
Aarkad Plc	USD	740,793	-	445,765	(0.66%)	See attached update.
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	-	-	-	-	
Bush Road Mezzanine Finance	GBP	-	-	-	-	
Cautley Ave Mezzanine Finance	GBP	-	-	-	-	
Financial Partners Loans	USD	-	-	161,118	0.36%	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 Mezz 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.

### Holdings in Other SPL Funds

Arch Private Finance IC Ltd	GBP	16,322,658	-	14,777,784	(3.46%)	Monthly fund revaluation based on the traded mid-price shown on the CISX.
SPL Private Finance (PF1) IC Ltd	GBP	3,628	-	29,665	0.06%	Shares received in part settlement of the Lonscale sale. This holding has since been sold in to the buyback program.
SPL China Energy (NR1) IC Ltd	USD	19,861	-	19,797	(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 Finance Opportunites (PF3) IC Ltd	GBP	-	-	17,927	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	-	-	6,952	0.02%	Shares received in part settlement of the Lonscale sale. This holding has since been sold in to the buyback program.

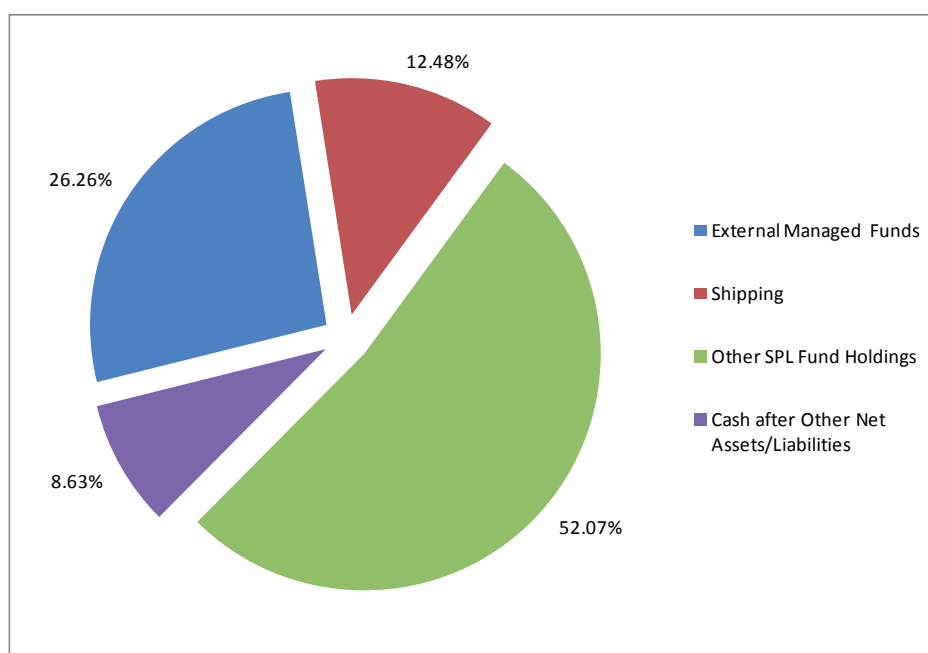
### Other

Cash	GBP	1,862,760	699,858	2,564,685	0.00%
Other Net Liabilities	GBP	(296,435)	(322,557)	(104,146)	1.15%
<b>Total</b>		<b>44,669,020</b>		<b>43,498,020</b>	<b>(2.62%)</b>

### 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	0.7921	0.7675	0.7590	0.7329	0.6832	0.6820	0.6090	0.5807	0.5696	0.5539	0.5555	0.5674	0.5525
% Change	(26.5%)	(3.1%)	(1.1%)	(3.4%)	(6.8%)	(0.2%)	(10.7%)	(4.6%)	(1.9%)	(2.8%)	0.3%	2.1%	(2.6%)

### 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](http://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 is 1.5%.
- The Performance Fee for the Fund is 10% of performance.
- 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 Fund is GG00B28RXT63.
- The Sedol for the Fund is B28RXT6.
- Information relating to the Fund is also available on the SPL Funds website ([www.splfunds.com](http://www.splfunds.com)).

### Disclaimer

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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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