

## Manager Commentary

Since the date of this factsheet, in order to aid the dissemination of information about each cell that is listed on the Channel Islands Stock Exchange, a dedicated SPL Funds website has been launched ([www.splfunds.com](http://www.splfunds.com)). This website features the fact sheets, Annual and Interim Financial Reports and Accounts, Scheme Particulars and other information for each of the cells. During February and since, there have been further drawdowns by the borrower in the restructured Shipping Deal 1 which serves to improve the overall quality of the deal. However, this funding has an immediate negative impact on NAV as the enhancement of the asset is not immediately reflected, but eventually we are hopeful the improvements to the fleet will mean it is better positioned to return these additional funds. Since the end of February, the sale of Lonscale has finally been completed, with the initial upfront payment of cash and SPL fund shares (total approximate value £1.1m) received by the cells. Further payments are due monthly from June onwards but will only be recognised in the NAV when they are actually received. Just to reiterate, in order to keep investors updated further factsheets will be produced for March, then every two months thereafter.

## Share Buybacks

A significant landmark in the process of providing liquidity to investors was reached on 31 March with the lifting of the suspension of trading. The buyback process has subsequently begun opening the initial mechanism for returning capital. While there has been varying levels of uptake of this mechanism depending on the cell, all cells still have capacity to buy back shares up to their 14.99% limit. Any investor wishing to sell in to this facility should request their stockbroker to contact James Cass at Liberum Capital, who are the market makers, on +44 20 3100 2205.

## 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.

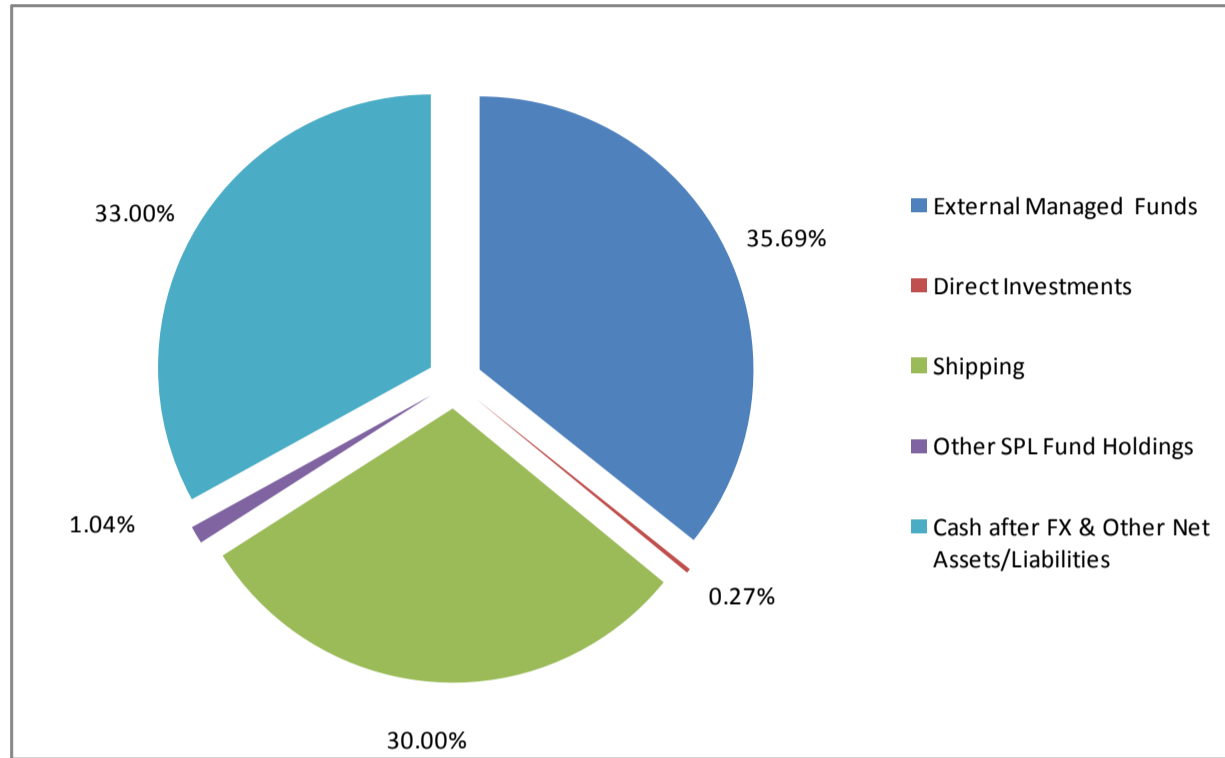
## Holdings

Investment	Currency of Investment	Value as at 29 Jan 10 (in GBP)	Cash Movement	Value as at 26 Feb 10 (in GBP)	Contribution to Overall Monthly NAV Movement	Comments / Additional Information
Shipping Deal 1	USD	3,343,654	336,736	3,511,669	(1.23%)	See attached note. Reduction in value due to further drawdowns in the month not immediately reflected in the overall value of the assets.
Acheron Portfolio Corporation	USD	2,249,440	-	2,339,154	0.65%	Monthly fund revaluation based on the NAV provided by the fund's administrator.
Growth Management Limited	USD	1,007,529	(54,559)	1,005,699	0.38%	Monthly fund revaluation based on the NAV provided by the fund's administrator. Small cash distribution received in February.
Hedge Fund 1	USD	800,515	-	838,511	0.28%	Monthly fund revaluation based on the NAV provided by the fund's administrator. A cash distribution for 25% of NAV has since been received during March.
Medley Opportunity Fund	USD	674,557	-	711,558	0.27%	Monthly fund revaluation based on the NAV provided by the fund's administrator.
Santa Maria Linked Funding Note	EUR	590,556	33,588	608,036	(0.12%)	See attached note. Reduction in value due to further costs incurred during the enforcement process.
cru Investment Management Loan	GBP	36,709	-	36,709	-	We are still currently working with the liquidator to recoup as much value on this loan as possible.
Agamas Continuum Fund Ltd	USD	3,820	-	4,008	0.00%	
LM Isis Opportunities Fund Ltd	USD	2,020	-	2,119	0.00%	
Arche Fund Ltd	USD	-	-	-	-	
Lonscale Mezz Funding Note	GBP	-	-	-	-	Transaction to sell Lonscale has now been finalised. Upfront cash consideration of £200k plus c. £900k of shares in other SPL funds held by the buyer, were received during March and April split across various SPL funds that held Lonscale issued debt. As a result, small uplifts in NAV can be expected in the two months to follow. The scheduled cash consideration will only be recognised upon receipt.
Financial Partners Loans	USD	-	-	-	-	Under the terms of the restructure, the debt funding provided by various SPL funds to Financial Partners was to be forgiven in return for shares in new devolved regional businesses. In April we accepted offers from the management of two of these entities for the shares held by the SPL funds. \$235k has since been received spread across various SPL funds, with a further \$450k due to follow in June.
Stewardship International Fund Ltd	USD	-	-	-	-	The wind-up of this fund is expected to be completed during Q2 2010.
<b>Holdings in Other SPL Funds</b>						
SPL Private Finance (PF1) IC Ltd	GBP	-	-	4,574	0.03%	Shares received in part settlement of the Lonscale sale.
SPL China Energy (NR1) IC Ltd	USD	-	-	25,042	0.18%	Shares received in part settlement of the Lonscale sale.
SPL Treasury (AT1) IC Ltd	GBP	-	-	-	-	
SPL Treasury (AT1) IC Ltd 7% Funding Note	USD	112,202	-	112,567	0.00%	Monthly revaluation provided by the administrator of the issuing fund.
<b>Other</b>						
Cash	GBP	5,406,756	(878,232)	4,568,809	0.29%	Increase in the value of cash due to currency movements.
FX Hedge Value	GBP	(459,594)	543,322	-	(0.61%)	FX Rates moved against the Fund before the hedges were closed out.
Other Net Assets/Liabilities	GBP	(39,728)	19,145	(36,935)	(0.12%)	
<b>Total</b>		<b>13,728,436</b>		<b>13,731,520</b>	<b>0.02%</b>	

## Performance (since February 2009)

	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10
NAV per Share	1.1993	0.7796	0.7386	0.7202	0.7270	0.6468	0.6262	0.4700	0.4552	0.4459	0.4319	0.4300	0.4301
% Change	(1.8%)	(35.0%)	(5.3%)	(2.5%)	0.9%	(11.0%)	(3.2%)	(24.9%)	(3.1%)	(2.0%)	(3.1%)	(0.4%)	0.0%

## 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%.
- The Performance Fee for the Fund is 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 subject to various adjustments. This will be published once it has been agreed by the board.
- The ISIN for the Fund is GG00B1LG9S42.
- The Sedol for the Fund is B1LG9S4.
- 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**

As at the last update based on the position as of the 30 November 2009, the Funds had deployed approximately £92mm into debt financing of a fleet of ships comprising both Bulk Carriers and Product Tankers. As stated at the time, the Funds invested what represented a significant proportion of their overall assets in this venture. The outcome of this one deal is, therefore, crucial to the value which will eventually be returned to fund investors. The deal was restructured in December 2009. The overall strategy was to get the fleet trading and stem the cash burn.

**Market Overview**

There has been a continuous surge in the movement of bulk commodities and as a result, the bulk carrier market has continued to outperform expectations in the first quarter. This is largely dependent on the recovery of the world's demand for dry commodities. On the supply side, the order book in 2010 is expected to equal 12.8m deadweight tonnes (dwt) which is c. 16.7% increase in tonnage. This may go some way to soften the performance of the bulker market. Bulk carrier rates for the 45,000 dwt class peaked on 19th March at 25,875 per day and then fell by 2.7% in the last week of March. The average daily earnings in the first quarter were \$21,471 per day.

Tanker rates have stayed considerably lower than the bulkers with Clean Product tanker rates achieving an average \$8,943 per day in the first quarter as the tanker sectors experienced an oversupply of tonnage relative to demand. The tanker new building delivery profile for 2010 is similar to 2009 which grew by c. 7.3%. However, an increase in scrapping due to the International Maritime Organization (IMO) targeted phase-out of single hull tankers is expected to have a dampening effect on tanker supply and lead to lower fleet growth in 2010 compared to the prior year.

We remain optimistic that bulker rates will continue to perform steadily, a trend that this is supported by the performance of the bulk carriers within the fleet. With crude prices stabilising and credit reportedly easing further, we expect an increase in trade flows. The increased level of activity may however be offset by the new deliveries expected to come into supply during the year. We hope to see a modest improvement in the tanker market later in the year.

	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	Y	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	Modification works completed on 20 January in order to trade as small double hull tanker of 25/27,000 dwt.	Modification works completed on 2 February in order to trade as small double hull tanker of 25/27,000 dwt.	Conversion to Bulk Carrier. Works commenced 22 February and are expected to complete by the end of Q2.	NA	NA	Possible modification / conversion by end 2010, depending on market.

**Investments during the period**

## 1. Modification works of the fleet

Modifications were carried out on two of the tankers in Dec2009/Jan 2010 in order for them to trade as smaller double hull tankers (25/27,000 TDW instead of 40,000 TDW). Total funding of \$800k was provided by the Funds as part of the restructured loan agreement. However, note that although the International Maritime Organisation (IMO) have stipulated that tankers which are single hull should be phased out or converted to 'double hull' by 2010, there is still ambiguity in the market as to the exact cutoff date. For this reason, these two vessels have continued to trade as single hulls in the first quarter without restrictions. We authorised the modifications as an alternative to scrapping to stem heavy monthly losses from the vessels remaining idle.

## 2. Conversion works of the fleet

Conversion works commenced on the last remaining non trading vessel into a geared bulk carrier on 22nd February. The conversion is expected to be completed by the end of Q2 at a cost of \$4.5m. This is a fixed price contract. Conversion works are currently on schedule and the addition of this vessel will significantly improve the cash generating potential of the deal.

**Trading Results**

The fleet made an overall \$888k operating loss in the 2 months to February 2010. The performance was negatively impacted by the lack employment opportunities in the tanker market such that none of the tankers traded profitably, and the fact that one vessel was in the shipyard part way through a conversion. The fleet of tankers achieved net operating losses totalling \$1.7m. The loss was partially offset by the strong performance of the bulkers, notably the 2 operational bulkers achieved net operating profits of \$878k. The current forecast assumes all tankers will achieve around break even for the rest of the year at a Time Charter Equivalent ('TCE') of \$7.3k per day.

**Bulkers** - The two bulkers achieved their full commercial operating days and traded every day in Jan and Feb, they exceeded initial forecasts of TCE \$11.5k per day and earned an average TCE of \$15.2k per day. The strong performance has continued into March and notably one vessel was chartered at a TCE of around \$23k in mid March for a voyage towards China (we expect this to reduce slightly on its way back from China to around \$17k).

**Tankers** - Two vessels carried out modification works throughout January and did not trade at all, but all modification works were completed in line with budget. However, there was additional spending on repairs and maintenance that had not been budgeted. Of the other vessels, one suffered significant engine damage in late January and this was not rectified until a month later, the cost of the damage was \$406k although this is expected to be fully recovered from insurers. The cost of repair has not impacted the trading results but the 27 lost trading days have significantly reduced the overall TCE in February. The other vessel did not trade for 21 days in January and February and incurred costs of \$91k during this period in addition to the lost charter revenue.

The interest payment due in April under the terms of the restructured loan was received, but there is still a fine balancing act required to ensure the fleet is able to meet subsequent repayments.

**Conclusions**

The greater flow of financial information, provided for under the terms of the restructure, has been evident in the first quarter of the year. This has allowed us to stay close to the numbers produced by the business on an almost daily basis, and report back to the board with weekly updates. The mixed picture outlined above shows the success of the restructuring is still very much in the balance, and is dependant not in the least on improved market conditions and tighter financial controls. There is a real requirement for the one vessel still in the dockyard to start trading and for the tanker market to improve if full repayment of the restructured loan is to be achieved. We will keep investors updated with developments in the coming months.

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**Deal Background**

The Santa Maria I is a “Ropax” vessel, which is a ferry that had been operating along a passenger line between Bari, in Italy and Dures in Albania.

The funds lent €6.65mm to Gourdomichalis (the vessel owner) in April 2008, secured against the ship, which was then valued at €12mm. The interest rate on the loan was 13%. In July 2008, the vessel suffered main engine damage. Repairs were not completed until June 2009 (when the vessel recommenced trading), which meant that two peak trading periods were missed. As a result, no interest or principal payments have been made since July 2008. There then followed an unsuccessful 2009 summer season, at the end of which it was obvious the vessel would not be able to meet its obligations going forward.

A number of discussions have taken place with Gourdomichalis, during which we made what we felt was a fair offer to restructure the debt. The terms were not acceptable to the borrower. Following this in the latter part of 2009, a number of actions taken by the borrower were, in our view, somewhat uncooperative and began contributing to a reduction in the value of the vessel. It became clear that Gourdomichalis had run up expenses against the vessel and had no intention of paying. This included unpaid insurance from 2009 and crew wages. We had no choice but to settle those bills as part of the enforcement process. At this time, Spearpoint concluded that the only option was to pursue enforcement through legal means. (A more comprehensive list of the issues and subsequent steps taken can be found in November’s factsheet).

**Current Status**

The Vessel continues to be berthed in Piraeus with continued 24-hour monitoring from the security firm.

Since January we have been pursuing the enforcement with respect to the Vessel. The legal process has been relatively successful, and the Greek court has fixed a date for auction of the Vessel of 12th May, which our lawyers advise us is quick by Greek standards. A reserve price for the Vessel has been set.

According to current estimates there are claims against the Vessel totaling around €223,000 which are so-called “priority liens”, i.e. that would rank above the funds’ mortgage on the Vessel. Hence, these would have to be deducted from the proceeds of any sale. Another claim which is higher ranking is the salvage cost when the vessel (under the control of Gourdomichalis) was salvaged following engine damage. However, we believe that this will be covered by an insurance claim. Gourdomichalis, who are the Owners, have made clear their intention not to meet any more costs in relation to the Vessel or to settle any of the debts they had run up since 2008.

Since January, a total of c.€626,000 has been spent by the funds, to protect the asset. These expenses are for legal fees, crew wages and insurance unpaid by the previous owners but in most cases ranking as a priority charge to our mortgage. We have retained local legal and technical expertise to assist us in this matter. We are hopeful some funds may be recovered from the insurer.

As to the auction itself, we cannot say for certain whether there will be a bidder. For confidentiality reasons we cannot be too specific. However, we have received a number of serious expressions of interest over the last few months. We continue to consider what action we might be able to take against Gourdomichalis.

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