

**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. During February, the board agreed there was no likelihood of the shares in SPL Treasury IC Ltd ever reaching a value above zero due to the presence of higher ranking, heavily impaired debt holders in the structure. It was therefore agreed to transfer the shares to the debt holders thus removing the holding. This helps to further simplify the overall fund structure, something we are putting a tremendous amount of work in to that is not generally reflected in the factsheets. 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.

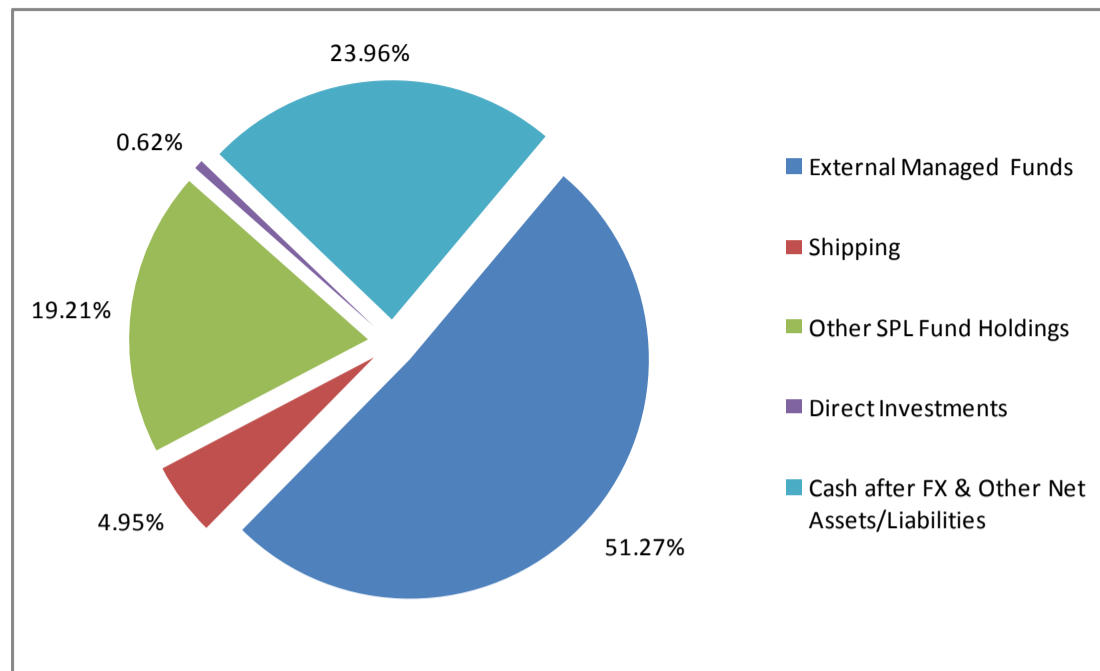
**Holdings**

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
Caritas Royalties Fund II (Bermuda) Ltd	USD	2,049,317	-	2,178,651	0.91%	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.
Acheron Portfolio Corporation	USD	1,628,005	-	1,692,935	0.46%	Monthly fund revaluation based on the NAV provided by the fund's administrator.
Latin America Bioenergy Fund	USD	1,510,422	-	1,649,291	0.98%	Monthly fund revaluation based on the NAV provided by the fund's administrator.
Climate Change Capital	EUR	1,160,452	-	1,175,251	0.10%	Fund revaluation based on the quarterly partnership report provided by the fund manager.
Natsource Aeolus Funds	USD	732,475	-	763,107	0.22%	Monthly fund revaluation based on the NAV provided by the fund's administrator.
Shipping Deal 2	EUR	413,361	-	416,976	0.03%	See attached note. Increase in value due to currency movements.
Shipping Deal 1	USD	288,329	29,114	302,818	(0.10%)	See attached note. Reduction in value due to further drawdowns in the month not immediately reflected in the overall value of the assets.
Execution Noble - Equity	GBP	90,672	-	90,672	-	
cru Investment Management - Equity	GBP	-	-	-	-	
<b>Holdings in Other SPL Funds</b>						
Arch Private Finance IC Ltd	GBP	1,366,681	-	1,382,257	0.11%	Monthly fund revaluation based on the NAV provided by the fund's administrator.
SPL Fine Wine (NR2) IC Ltd	GBP	889,272	-	848,745	(0.29%)	Monthly fund revaluation based on the NAV provided by the fund's administrator.
SPL Private Finance (PF1) IC Ltd	GBP	323,556	-	326,720	0.02%	Monthly fund revaluation based on the NAV provided by the fund's administrator.
SPL Finance Opportunities (PF3) IC Ltd	GBP	154,993	-	155,029	0.00%	Monthly fund revaluation based on the NAV provided by the fund's administrator.
SPL Structured Finance (PF4) IC Ltd	GBP	83,383	-	82,190	(0.01%)	Monthly fund revaluation based on the NAV provided by the fund's administrator.
<b>Other</b>						
Cash	GBP	3,559,192	(47,456)	3,595,539	0.59%	Increase in the value of cash due to currency movements.
FX Hedge Value	GBP	(461)	461	-	-	
Other Net Assets/Liabilities	GBP	(108,110)	17,880	(109,912)	(0.14%)	
<b>Total</b>		<b>14,141,539</b>		<b>14,550,269</b>	<b>2.89%</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	1.1077	0.9418	0.9224	0.9227	0.8436	0.8158	0.8334	0.8097	0.7870	0.7861	0.7849	0.7843	0.8070
% Change	(4.4%)	(15.0%)	(2.1%)	0.0%	(8.6%)	(3.3%)	2.2%	(2.8%)	(2.8%)	(0.1%)	(0.1%)	(0.1%)	2.9%

## 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](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 20% 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 GG00B1XLND02.
- The Sedol for the Fund is B1XLND0.
- 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**

Back in August 2007, the Funds provided €1.99m of debt funding for a Greek based buyer to purchase two new 3,250TDW, IMO II, Product Tankers to be built at shipyards in China. These loans were to cover 20% of the contract purchase price to be held in escrow pending delivery of the vessels (€1.43m), and working capital for delivery expenses (€560k). The borrower also had the option to purchase two further vessels at a later date.

The expected project completion time was 17 months, with a further 3-month buffer allowed for overruns. The borrower had agreed to purchase the vessels for €4.105m each. The interest rate on the facility was 20%, ratcheting up by 1% per month if there was late delivery (post 20 months) up to a maximum of 25%.

The 20% of the contract price was to be held in a joint account (buyers and sellers) under the control of a UK law firm until the vessel was delivered as per the shipbuilding contract. Upon receipt of the vessel, the buyer would then either resell or trade the vessel, with priority given to the former option. In the event of no resale being achieved, the Owner would (a) obtain senior financing equal to the balance to the delivery cost and (b) operate the vessels under a 5-year time charter to a major oil company (a letter of intent had previously been received). At the time of the transaction, it was likely that in this case senior lending would be available at 75% LTV given the period time charters.

**Recent Events**

Delivery of the vessels has now been promised on a number of occasions, the contractual expiry date for delivery was July 2009, while the most recent estimate for delivery was July 2010. The poor delivery track record experienced so far means we could place little faith in this new date. A default was called on the loan in February 2010. The default was not remedied and the Funds enforced the security they had over the ship building contract, effectively taking the place of the borrower.

The Funds then issued the shipbuilders with notices that they were in breach of the ship building contract and that the moneys held in escrow should be released. The moneys were not released and we have initiated arbitration to recover the amount. Arbitrators have been appointed by both sides and we are in the process of submitting our claim which sets out our case to the arbitrators. Once submitted, the shipyard has 28 days to lodge their defence. We then have 14 days to respond (unless they make a counter claim). After that, the claim is considered by the arbitrators.

With regard to the remaining amount leant, we are currently taking advice on pursuing proceedings against the borrower for their failure to perform and their unwillingness to account for the working capital.

The loan is currently marked to the value of the amount held in escrow minus expected arbitration costs. In the next couple of months, we will know if we have been successful in recouping the escrow money and we will keep shareholders informed of progress.

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