

Researchers

Charles Cade

+44 (0)20 7260 1327
c.cade@numiscorp.com

Ewan Lovett-Turner

+44 (0)20 7260 1299
e.lovett-turner@numiscorp.com

James Glass

+44 (0)20 7260 1280
j.glass@numiscorp.com

Colette Ord

+44 (0)20 7260 1290
c.ord@numiscorp.com

Sales

Chris Gook

+44 (0)20 7260 1378
c.gook@numiscorp.com

Tod Davis

+44 (0)20 7260 1381
t.davis@numiscorp.com

Katherine Miller

+44 (0)20 7260 1380
k.miller@numiscorp.com

Website: www.numiscorp.com/funds

Note: all pricing and NAV data as at close of 4 November unless otherwise stated

* indicates that the company is a corporate broking client of Numis Securities

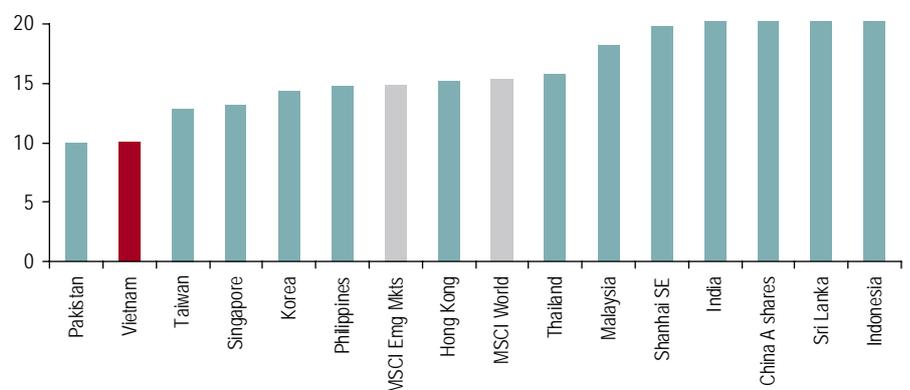
Weekly News & Views

Vietnam – Momentum is Building

In early August, we published a detailed research note on Vietnam focused closed-end funds entitled “*Time to Take Another Look*”. Since then, the Vietnam Index has remained dull, falling by 7% in local currency or 9% in US\$. However, share prices of the Vietnam closed-end funds have benefitted from the combination of corporate action and rising investor interest. VinaCapital Vietnam Opportunity Fund (\$612m market cap) has risen 27% in US\$, whilst the real estate vehicle VinaLand (\$456m market cap), is up 17%. Following this strong run, we believe that the share prices may pause for breath in the short term, though we feel that they continue to offer value at discounts of 23% and 35%, respectively.

- The annual VinaCapital conference, held last week in Ho Chi Minh City, was upbeat with a far higher attendance than in 2009. In addition, the VinaCapital funds have all announced proposals to enhance shareholder value through a combination of returning capital and increased marketing to broaden demand. This follows a series of buybacks and discount controls implemented by other Vietnam funds in recent months.
- International investors have focused on Asian markets this year, but they have largely ignored Vietnam because of its weak currency and budget/trade deficits. However, these risks reflect the country's early stage of development and there is little foreign corporate debt, in contrast to other Asian markets in the mid-1990s. The Vietnamese economy is set to achieve growth of close to 7% p.a. this year, but the stock market has been hit by significant equity issuance, tightened banking regulations and a lack of foreign buying. As a result, we believe that valuations are now starting to look compelling, with a market P/E of under 10x 2010E earnings despite prospects for earnings growth of more than 15%. The Vietnamese focused closed-end funds are the obvious way to gain exposure, in our view. The sector includes 16 funds with a combined market cap of over \$2.5bn which provide exposure to a range of asset classes, including equities, private equity, real estate and infrastructure.

Figure 1. PE Multiples of Asian Markets



Source: Bloomberg

This marketing communication was prepared and approved by

Numis Securities Ltd.

The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT, UK
Tel +44 (0) 20 7260 1000
Fax +44 (0) 20 7260 1010
Email mail@numiscorp.com

For UK regulatory purposes, this is a marketing communication. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Non independent research is not subject under MiFID to any prohibition on dealing ahead of the dissemination of investment research. However, Numis is required by the FSA to have policies in place to manage the conflicts of interest which may arise in its production, which include preventing dealing ahead. Neither past performance nor forecasts are a reliable indicator of future results.

For important disclosure information relating to Numis Securities Limited, including analyst certification, investment banking relationships, if any, with any companies mentioned in this report, and potential conflicts of interest, please refer to pages 35 to 36, especially analyst certification on page 35, the important disclosure section on page 35 and the additional disclosure on page 35. When applicable, disclosures regarding ratings¹ may be found at <http://www.numiscorp.com/x/us/regulatory.html>

Contents

Vietnam – An Update	3
VinaCapital Vietnam Opps – Results of strategic review	5
VinaLand – To distribute 50% of realisation proceeds	7
Vietnam Infrastructure – To pay yield of 5-10% of NAV	10
New/Secondary Issuance	12
New Issues	12
Secondary Fund Raisings	14
Listed Private Equity	18
Results	18
Investments	21
Realisations	23
Other Investment Company News	24
Listed Hedge Funds	24
Property	26
Infrastructure	27
Other Sector Specialist	28
Emerging Markets	29
Developed Equity Funds	31
Split Capital Funds	32
News in Other Sectors	32
Net Retail Sales of Open-Ended Funds	33

Vietnam – An Update

Update follows visit to Vietnam last week

Strong fundamentals despite the headwind of budget/trade deficits and a depreciating currency

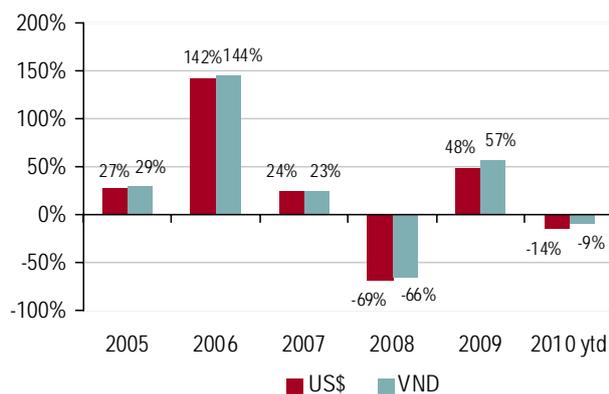
Valuation of equity market is attractive

Having attended VinaCapital's Investor Conference in Ho Chi Minh City last week, we thought that it was worthwhile providing an update on the outlook for the Vietnam closed end funds. This sector includes 16 funds with a combined market cap of \$2.5bn and net assets of over \$3.5bn.

In our view, Vietnam is one of the most promising countries in the world due to low labour costs and a young, growing workforce; rising domestic consumption; an entrepreneurial culture; political/religious stability; a commitment to open-up the economy to foreign investment; significant natural resources; and a strategic location near to China and Japan that makes it suited as an export hub for a wide range of manufactured products. The economy has grown by 7.2% p.a. over the past decade and GDP growth of 6.5-7.0% is predicted by the government for 2010. In the short term there are some concerns over the strength of the currency due to the budget/trade deficits. However, the country has little foreign debt and the currency weakness is driven by domestic factors rather than any external pressure. There are large domestic hoards of gold and US\$, equivalent to \$50bn (50% of GDP) and the challenge for the government is to channel some of this hidden wealth into the domestic currency. The State Bank of Vietnam has today increased the base rate to 9% from 8% which should help towards this objective and also to keep inflation in single figures.

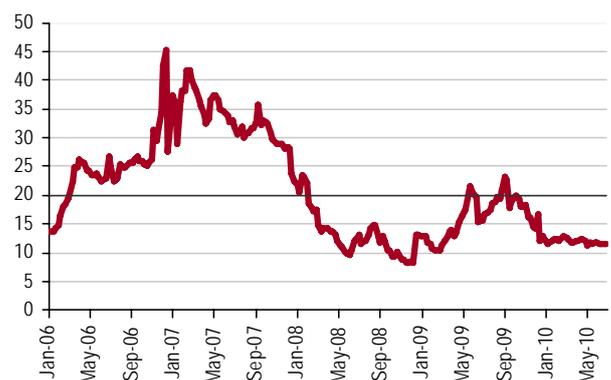
The Vietnam equity market surged in 2006/07 but this bubble proved short-lived and the market was hit hard in 2008 by a combination of domestic issues (rising interest rates to tackle inflation) and the global credit crunch. There was a recovery in 2009, but the market has struggled to make headway in 2010 as investors have focused on emerging markets elsewhere. As a result, the valuation of the Vietnam market is looking increasingly attractive, in our view.

Figure 2. Vietnam Index Performance by Year



Source: Bloomberg, Numis Securities Investment Companies Research

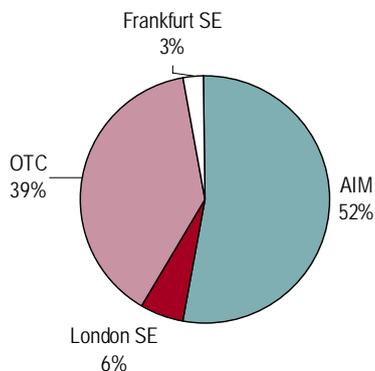
Figure 3. Vietnam Index P/E Ratio



Source: Bloomberg

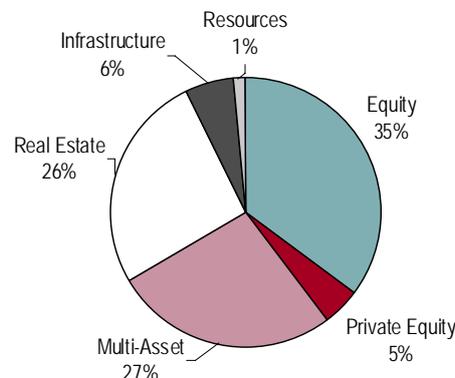
The Vietnamese closed-end fund sector offers a broad range of mandates ranging from Equity to Multi-Asset to Property. The vast majority of closed-end funds are run by local fund management groups with extensive local and government contacts. VinaCapital and Dragon Capital are the two leading fund management groups and both have well resourced research teams.

Figure 4. Vietnam Funds Value by Listing (market cap)



Source: Datastream, Numis Securities Investment Companies Research

Figure 5. Vietnam CEF Universe by Asset Class (US\$m)



Source: Datastream, Numis Securities Investment Companies Research

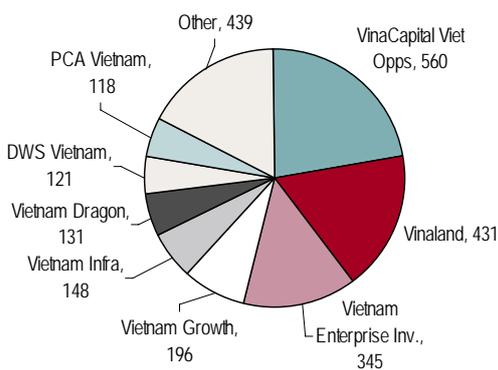
CEFs provide exposure to a range of asset classes

The choice of fund depends upon whether you are looking for direct exposure to the Vietnam equity market (with a market cap of \$30bn) or attractive returns through broader exposure to the country's economy (with a value of \$100bn). In our view, there are significant opportunities from pre-IPO/private equity and real estate investments in Vietnam. Trading liquidity is also a key consideration, in our opinion. The ability to trade is patchy in the smaller funds and spreads can be wide, particularly for the OTC traded stocks which offer less dealing transparency. All else being equal, we favour the AIM/London SE listed funds.

Discounts have narrowed due to corporate action

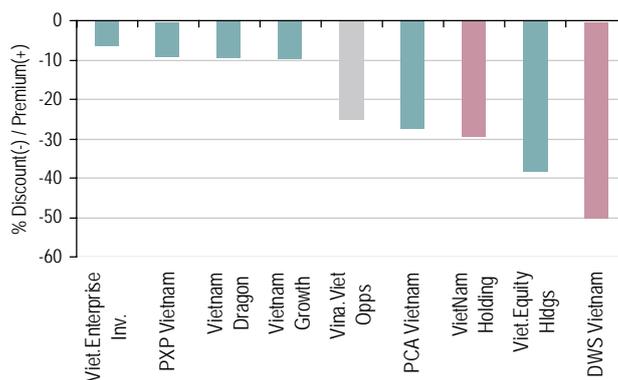
During 2010, numerous Vietnam funds have taken action to address their discounts. PCA Vietnam, DWS Vietnam and Vietnam Enterprise Investments have repurchased shares, whilst Vietnam Growth Fund is also offering shareholders an exit of up to 10% of their shareholding every six months. As a result, discounts have narrowed significantly in recent weeks, particularly for those funds with a purer equity mandate.

Figure 6. Vietnam Closed-End Funds – Market Cap \$m



Source: Numis Securities Investment Companies Research

Figure 7. Vietnam Equity/PE Funds – Discounts



Note: Blue indicates primarily Equity mandate, Pink is Multi-Asset and Grey Private Equity
Source: Numis Securities Investment Companies Research

VOF and VinaLand remain our favoured funds

In our view, **VinaCapital Vietnam Opportunity Fund (VOF)** remains the most attractive way to gain exposure to the economic growth potential in Vietnam by investing in a range of asset classes (equities, pre-listeds/OTC, private equity and real estate). For investors seeking purer exposure to the Vietnamese equity market, we believe that **PXP Vietnam** or **Vietnam Growth Fund (VGF)** are the obvious choices, while **Vietnam Enterprise Investments (VEIL)** is differentiated by a weighting of almost 30% in two of the country's leading banks (ACB and Sacombank), exposure that would be difficult to replicate due to limits on foreign ownership. In the real estate sector, we favour **VinaLand** and were encouraged by the prospects for the portfolio after visiting a number of projects in Ho Chi Minh City and Danang.

We focus on the VinaCapital funds in this report

Whilst in Vietnam, we met a number of fund management groups, including PXP AM and Dragon Capital. In this report, however, we focus on the three AIM traded VinaCapital funds as all three have announced a package of measures over the past week to enhance shareholder returns (including considering moving their listing to a more mainstream exchange). Our research note *Vietnam – Time to Take Another Look* published on 3 August, provides more details on the market/economy as well as profiles of the other closed end funds. This is available on our website: www.numiscorp.com/funds.

VinaCapital Vietnam Opps – Results of strategic review

The Board of VinaCapital Vietnam Opportunity Fund (VOF) has undertaken a strategic review designed to enhance shareholder returns and on 27 October, the following measures were announced:

Semi-annual tender at NAV

- To return 4% of NAV each year via two tender offers at NAV, equivalent to a 5.2% yield based on the current discount of 23%. The first distribution will be made in May 2011 after the finalisation of the company's interim financial statements.

Considering moving to another stock exchange

- To convene an EGM to seek shareholder approval for buyback powers.

- To explore the possibility of moving the Company's primary listing from AIM to another stock exchange with a view to widening the shareholder base.

Senior members of the investment manager will undertake a roadshow in Europe, Asia and North America over the coming months to meet with investors to explain these measures and the fund's strategic direction, as well as discussing the outlook for Vietnam.

Proposals have been well received

We believe that the measures are sensible and they have been well received by the market, with the share price up by 14.3% to \$1.885 since the announcement. We believe that a combination of buybacks and improved marketing will help the discount to continue to narrow. It is unclear what other stock exchanges are being considered, though we believe that likely candidates are the main market of the London SE, as well as Singapore and Hong Kong. We believe that dual listings are worth considering, but feel that the fund's profile and liquidity could suffer if it moves wholly away from the London market where there is a large and established listed funds industry. VOF already has a broadly diversified shareholder register by geography and we believe that investor demand will be strong once the Vietnamese market comes back into favour.

Just under 40% invested in listed equities

OTC/Private Equity forms a core part of strategy

Reducing direct Real Estate

Largest and most liquid vehicle offering diversified exposure to the Vietnamese economy

VOF Portfolio

The **listed equity portfolio** currently represents 38% of net assets, though the target is to reduce this to 30%. The equity portfolio was restructured in 2009, with a focus on more liquid, blue chip equities. It is focused on sectors that the managers believe will benefit from domestic growth, particularly the rise of an urban middle class with higher disposable income. Key sectors include: Consumer Goods/Retail, Banks, Healthcare and Education.

The **OTC/Private Equity portfolio** is the key focus for new investment and the aim is to increase this weighting to 30% from 18%. VOF gained a significant uplift from 12 OTC holdings that listed during FY 2010, including Eximbank, Khang Dien Housing and DIC Corp. Recent investments include Hoan My Medical Corporation (healthcare provider), Prime Group (ceramics manufacturer) and An Giang Plant Production (pesticides).

VOF's direct **Real Estate** weighting rose sharply in late 2008 when equity markets fell, partly as a result of valuation lags. The strategy has been to reduce this weighting to around 20% and to improve liquidity. In addition, the managers believe that it is currently more attractive to buy VinaLand at a discount rather than to make new investments in real estate. Direct real estate currently represents 31% of VOF's portfolio, while it also has exposure of 13.7% to the sector through listed equities.

Outlook for VOF

VOF (\$544m market cap) is the largest, most liquid way to invest in Vietnam, with a daily trading value of over \$1m. In addition, we believe that it is an attractive way to gain exposure to the economic growth potential in Vietnam. By investing in a range of asset classes (equities, pre-listeds/OTC, private equity and real estate) the fund provides much broader exposure than can be accessed purely through the stock market. In our view, the multi-asset approach means that the fund's returns should remain less volatile than the general market. This also suggests that VOF's NAV is likely to lag behind a rally in the Vietnam Stock Index, at least in the short term, though the share price return may be stronger if improved sentiment leads to a narrowing of the discount. In addition, we feel that there is significant potential for VOF to add value through exploiting the arbitrage between the OTC and listed market.

Figure 8. VOF – Price & NAV Performance



Source: Numis Securities Investment Companies Research

Figure 9. VOF – Discount History



Source: Numis Securities Investment Companies Research

VinaLand – To distribute 50% of realisation proceeds

As with the sister fund, VOF, the Board of VinaLand has announced a number of measures to enhance shareholder returns:

To distribute 50% of realisations

- To distribute 50% of cash from divestments, after providing for tax and investment commitments, through tender offers at NAV. The first distribution is expected in the second quarter of 2011 after the finalisation of the interim results.
- To convene an EGM to seek shareholder approval for buyback powers
- To explore the possibility of moving the Company's primary listing from AIM to another stock exchange with a view to widening the shareholder base.

As with VOF, there will also be increased marketing to raise the fund's profile. Looking further ahead, the Board intends to convene an extraordinary general meeting (EGM) in 2013 where a special resolution will be proposed "*that the Company continue as presently constituted*". This will require the support of 75% of votes cast, though the fund is being managed on an ongoing basis rather than as a limited life vehicle.

VinaLand Management and Portfolio

Well resourced and experienced real estate team

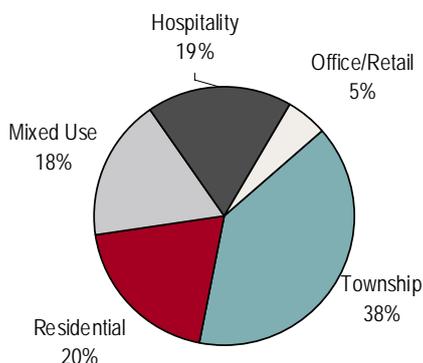
VinaCapital's real estate resources have been strengthened considerably in recent years with the recruitment of several Australians with significant experience in real estate development, including **David Henry**, **David Blackhall** and **Anthony House**. Earlier this year, the group established VinaProjects, a property management division, through a joint venture with Hong Kong based InProjects Group. VinaCapital has transferred 30 staff into the entity which is now responsible for handling project and construction management for 90% of VinaCapital's property investments. The aim is to ensure that international standards are met on a consistent basis. Another recent initiative is VinaLiving, a branded sales vehicle for all of VinaCapital's residential projects. The aim of VinaLiving is to lower costs for sales and marketing while "*creating a loyal clientele and achieving higher margins*".

By sector, the emphasis is on:

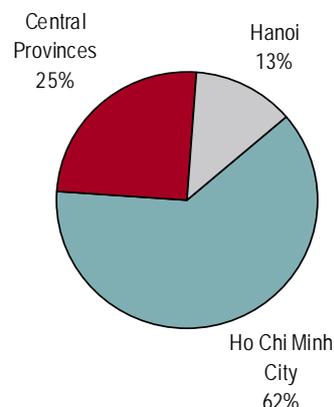
- **Mid-range residential projects** - these can be financed primarily through pre-sales and require very little debt.
- **3-4* hotels** in the CBD and first outer area in Hanoi and HCM that will benefit from a rise in local business travel and tourism.
- **Retail developments** in prime sites, often as part of multi-purpose projects.

Little exposure to Offices

VinaLand also has a number of major **township developments** (e.g. Fideco Binh Duong and Vinh Thai Nha Trang) and **coastal leisure developments** (e.g. Danang Beach Resort) targeted at local buyers. The managers believe that there is significant overcapacity in **Offices** and VinaLand has little exposure to this sector. In total, VinaLand now has 36 projects and the aim is to reduce this to around 25 on an on-going basis.

Figure 10. VinaLand – Portfolio by Sector


Source: VinaCapital

Figure 11. VinaLand – Portfolio by Region


Source: VinaCapital

Many projects financed primarily through pre-sales

Further details provided on project finance

Valuation is not straightforward

Debt Financing

VinaLand's projects are financed through a mixture of debt/equity funding as well as pre-sales, particularly in residential developments. Leverage is primarily through non-recourse debt for individual projects and VinaLand took advantage of easier domestic credit in 2009 to restructure over \$100m of project debt with local banks, typically at cheaper rates and with fewer restrictions. Total debt at the project-level is equivalent to around 15% LTV, though debt may be in the region of 60-70% LTV in commercial projects where there is less pre-sale financing. The debt is split 80:20 VND:US\$ with a blended cost of 11-12% (14% on VND debt and 5-6% on US\$ debt), typically with a life of 3-5 years.

At the recent Investor Conference, further details were provided on individual project debt/equity ratios for the five projects with end or development financing in place: Danang Beach Resort (37% LTV); WTC Danang (17%); Vinh Thai Nha Trang (28%); The Garland (67%) and Long Truong (70%). The average LTC of the hospitality portfolio was 66% reflecting recent renovation work at three of the group's five hotels.

Valuation

There is little transparency over property prices in Vietnam as there is no history of transactions and many deals are purely financed through cash. VinaLand's NAV is determined by a valuation committee, with approval by the Board. Each property is valued independently at least every 12 months by two independent valuers (such as CBRE, Colliers, Cushman & Wakefield or Savills) based upon direct comparison with sales of other similar properties in the area and the expected future cash flows using discount rates of 13-16%. In addition, the properties are assessed for valuation impairment each quarter. Projects are typically revalued at various approval stages such as Investment licence, construction permit and 1-500 planning approval, while adjustments are also made based on firm offers. Borrowing costs for property under construction or development are capitalised if they are directly attributable to the acquisition, construction or production of the asset.

Record of strong uplift on realisations

Whilst there will always be questions over valuations given the opaque nature of the market, VinaLand's track record of realisations suggests to us that the portfolio is realistically/conservatively valued. Even during the downturn, VinaLand was able to achieve a number of exits at prices above carrying values. In August 2009, VinaLand sold a 52.5% stake in the Hilton Hanoi Opera Hotel to a local buyer at 10% over carrying value, resulting in an IRR of 23%. In January 2010, the fund sold its 73% stake in the Oasis mixed-use residential/retail project in District 7 at 58% above the carrying value, resulting in an IRR of 25%, or a 1.6x return on capital. Earlier this week the fund announced the partial sale of Golden Gain Vietnam, a 270,000 sq ft residential apartment development project in Hanoi (known as Mandarin Gardens). VinaLand invested \$16m in October 2008 and is selling 85% of its stake to a Vietnamese company for proceeds of \$36.2-40.47m (7.0-8.0c per share) representing an IRR of 49-56%. We believe that the uplift is already reflected in the latest NAV and the remaining 15% stake is expected to be sold to the same buyer at a later date.

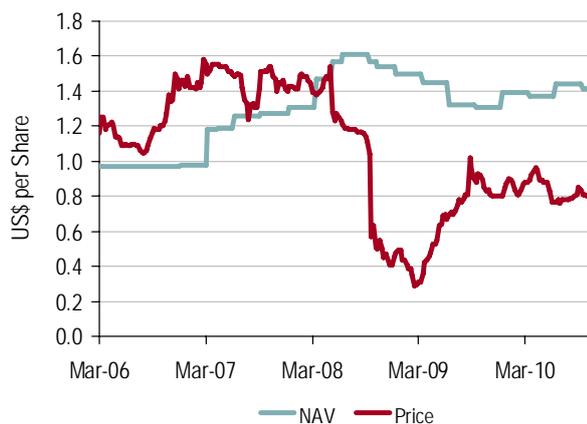
Outlook for VinaLand

VinaLand benefits from a well resourced and experienced management team that has been strengthened considerably in recent years. Market conditions have been tough over the past couple of years and the emphasis has shifted from new investment to the execution of projects, involving sales/marketing as well as construction/ development. Significant debt financing was secured during 2009 to develop existing projects and the fund's broad sector and geographic spread means that VinaCapital has the flexibility to select and develop projects with the highest potential in the current market conditions.

Further upside potential for share price

VinaLand's share price has recovered strongly since early 2009 and has rallied by 14.1% since the result of the strategic review was announced on 28 October. Nevertheless, the current share price of \$0.9113 still represents a discount of 33% to its NAV at 30 September. We believe that the stock has further upside due to greater transparency on the portfolio, the ongoing validation of valuations via realisations and the prospects of a partial return of capital.

Figure 12. VinaLand – Price & NAV Performance



Source: Numis Securities Investment Companies Research

Figure 13. VOF – Discount History



Source: Numis Securities Investment Companies Research

Vietnam Infrastructure – To pay yield of 5-10% of NAV

Vietnam Infrastructure has announced its plans to reduce the discount to NAV and improve shareholder returns by introducing the following measures:

Pay-out of 5-10% of NAV once fully invested

- Distribute 5-10% of NAV once fully invested, expected to be in late 2011. This is equivalent to a yield of 7.5-15% at current discount of 33%. The fund has yet to determine whether distributions will be via a tender offer at NAV or as a dividend. The statement suggested that the distribution would be made semi-annually or annually.

Considering LSE main market or Singapore SE

- Explore the possibility of moving the primary listing to another stock exchange “with the view of broadening the company’s investor base”. The markets being considered are London SE main market or Singapore.

Broadening mandate to Agribusiness

- Broaden the scope of investment to include agribusiness infrastructure and logistics.

Improving disclosure

- Limit amount of listed equities held to 20-25% of net assets once fully invested (compared with 30-35% at present). The portfolio will be rebalanced every 12-18 months to adjust for the listing of private equity assets.

The managers also intend to increase regular communication with investors to provide education on the nature of the asset class. In addition, they are looking to improve reporting (the NAV is now published monthly rather than quarterly).

Portfolio and Management

This AIM traded fund was launched in July 2007, having raised \$402m. It seeks to invest in infrastructure and infrastructure-related assets in Vietnam. It invests in equity, debt and hybrid securities of unquoted companies that hold, develop or operate infrastructure assets. Stakes in listed and OTC shares may also be acquired where they are believed to be significantly undervalued.

Most infrastructure in Vietnam is still state-owned

Infrastructure investment in Vietnam is around \$8bn p.a., equivalent to around 10% of GDP. This is funded through a combination of government expenditure, private investment, ODAs and bank debt. Infrastructure assets are still largely state-owned, as only 10% of the universe is listed or OTC traded. However, there is the potential to see continued IPOs of these assets over time.

Tony Hsun joined in late 2009

VinaCapital’s Infrastructure team is headed by **Tony Hsun** who joined the group in October 2009, following over 25 years’ experience investing in infrastructure projects on a global basis. He is supported by a team of 15, including **Kenny Low** who was recently appointed as a new MD of Infrastructure.

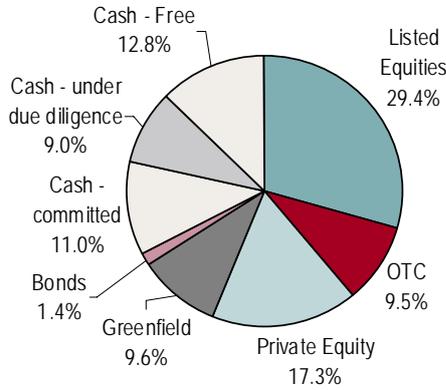
Focus on BTS towers and hydropower

The portfolio includes around 20 assets diversified by sector and asset class. The strategy is to focus on operating assets that have existing revenue streams, rather than Greenfield sites. By sector, the focus is primarily on Energy (hydro and other electricity), Transportation (toll roads and ports), Telecommunication (telecom towers), and Water/Environmental Management (solid waste treatment), as well as Industrial Parks and now Agribusiness.

\$30m of free cash, with \$48m committed or under DD

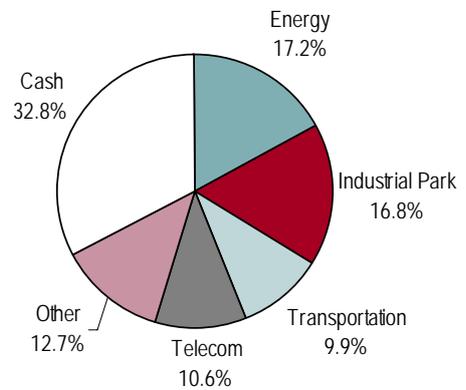
At 30 September, 32.8% of VNI’s portfolio was in cash or equivalents, representing around \$78m. \$26m is committed to projects once milestones are reached and \$22m is ear-marked for hydro power projects under due diligence, leaving free cash of \$30m. The fund is expected to be fully invested within the next 12-18 months.

Figure 14. VNI Portfolio by Type of Security



Source: VinaCapital as at 30 September 2010

Figure 15. VNI Portfolio by Sector



Source: VinaCapital as at 30 September 2010

Performance and Discount

Performance is difficult to assess

It is not easy to assess the performance of Vietnam Infrastructure. In absolute terms, performance has been disappointing since the launch in July 2007, though this is unsurprising given the tough market conditions. There are currently no directly comparable funds or indices making it difficult to benchmark relative performance. Unquoted projects are typically held at cost unless there is impairment and so the NAV tends to be relatively stable. As highlighted above, however, more than a third of assets are invested in listed or OTC stocks and the NAV fell by 7.8% in Q3 this year reflecting weak equity markets.

Paid 10c distribution after share price collapsed in Q4 2010

VNI's share price collapsed in late 2008 as a result of distressed selling and reached a low of less than 10c, well below the value of the company's free cash resources. In response to this, VNI returned \$40.2m to shareholders (\$0.10 per share) through a special capital distribution on 16 January 2009 (ex-date 17 December 2008).

Positive outlook on medium/long term view

After a recovery in H1, the share price has traded in a range \$0.34 to \$0.40. The share price is up by 3.6% to \$0.3938 following the announcement of the strategic review. This represents a discount of 33% to the NAV at 30 September. In the near term, we believe that the upside for VNI is likely to be less than for VOF or VinaLand, but we believe that there is likely to be strong demand for the fund in the medium/long term once it is able to generate a consistent income for investors.

Figure 16. Vietnam Infrastructure – Price & NAV Returns



Source: Numis Securities Investment Companies Research

Figure 17. Vietnam Infrastructure - Discount History



Source: Numis Securities Investment Companies Research

New/Secondary Issuance

An active issuance market

The demand for new/secondary issuance has remained strong in recent weeks and we estimate that £3.0bn of capital has been raised within the investment companies sector in 2010 to-date.

New Issues

A number of new funds are currently being marketed, including:

Reinsurance Investment Opportunity*

Target return of Libor plus 12-15% from an uncorrelated asset class

A new London-listed investment company investing in a diversified portfolio of catastrophe reinsurance contracts providing protections against low frequency/high severity insured loss events such as hurricanes and earthquakes. The fund will seek to deliver a net return of Libor +12-15% p.a. in US dollar-terms with no leverage from an asset class that has demonstrated no meaningful historical correlation with equity or debt markets. The portfolio is expected to be fully invested by early January 2011 and exposure will be spread across 8-10 non-correlated "Risk Pillars", including: US Wind, US Quake, European Wind, Japan Wind, Japan Quake, Rest of World, Aviation, and Marine. Contract triggers will be set at levels that would not have occurred more than twice in the past 40 years and current reinsurance premium rates on CATCo's target portfolio represent a multiple of the expected loss rate reflecting a lack of capital following credit crisis.

In the event of an unprecedented level of major losses from events being triggered, CATCo still expects to make positive returns over three-year periods. This is because the downside is capped to each event (12.5% if there are eight risk pillars) and average premiums typically rise sharply following a significant event. Thus a claim in the first year would significantly increase the expected return in future years.

Experienced management team

The lead manager is Tony Belisle, an actuary with 25 years of (re)insurance and investment experience with Goldman Sachs, Citadel Investment Group, Deutsche Bank and Fidelity Investments. The management fee is 1.5% p.a. of net assets, with a performance fee of 10% of NAV total returns subject to achieving a return of Libor + 7.5%. The fund will target a dividend of at least 5% p.a. and will hold a continuation vote if the three year rolling total return is below Libor +7.5% p.a. The fund will have buyback powers and the portfolio is expected to be highly liquid at the end of each calendar year reflecting the annual nature of the contracts.

BlackRock Frontiers IT

Frontier markets are focused on Africa/Middle East, rather than Asia

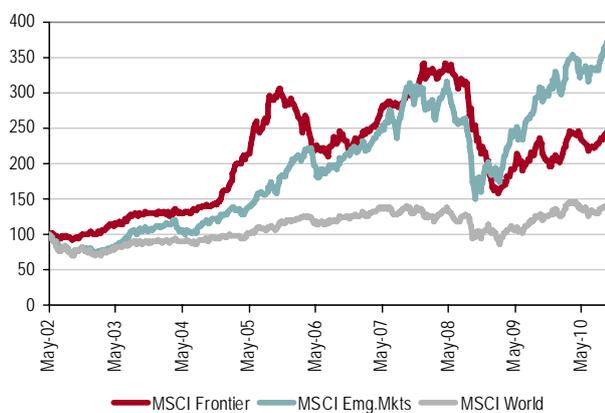
BlackRock is marketing a new investment trust that will invest in companies listed in Frontier Markets, developing countries that are excluded from the major Emerging Market Indices. These smaller markets have lagged behind the "BRICs" in the liquidity driven rally since early 2009 and as a result they are now trading more cheaply despite benefiting from a strong secular growth story. Frontier markets are experiencing rapid GDP growth, have a low debt burden and typically have a low correlation to both Developed and other Emerging Markets. The Frontier Markets Index has a heavy weighting in Africa/Middle East relative to the MSCI Emerging Markets Index, and has little exposure to Asia. The indicative portfolio of BlackRock Frontiers IT is split 36% Middle East, 23% Africa, 30% Emerging Europe, 7% Latin America and 4% Asia.

Sam Vecht will be the lead fund manager

The lead manager of the fund will be Sam Vecht, head of the group's Emerging Europe, Middle East and Africa equity team. BlackRock's Frontier Markets team of eight investment professionals has held 230 company meetings over the past 12 months. The fund is due to start trading in early December. The basic management/administration fee is 1.1% with a performance fee of 10% of NAV returns in excess of the MSCI Frontier Markets Index, capped at 2.5% of assets (1% in negative return years). The fund is expected to yield at least 3.0% p.a. and there will be a full tender at NAV less costs after five years.

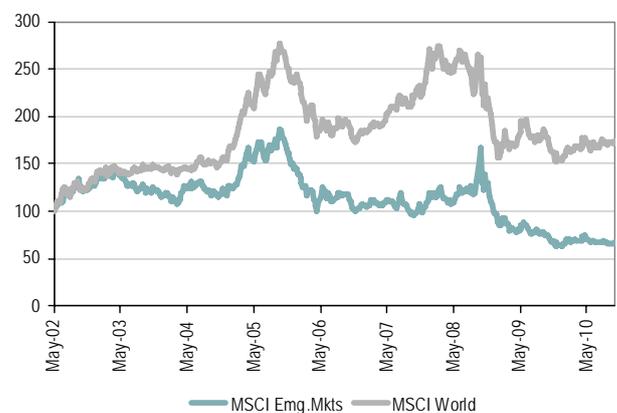
At present, closed-end fund investors can gain exposure to the asset class through **Advance Frontier Markets*** (\$125m market cap, 12% discount) which was launched in mid-2007. It invests through "best of breed" open and closed-ended funds that provide access to experienced locally based managers.

Figure 18. Performance of Market Indices (in £)



Source: Datastream, Numis Securities Investment Companies Research

Figure 19. MSCI Frontier Markets Relative Performance



Source: Datastream, Numis Securities Investment Companies Research

Other New Issues

In previous weekly updates, we highlighted three other new investment company issues currently being promoted.

Credit opportunities with a catalyst

BH Credit Catalyst Fund - to invest in mortgage-backed and corporate credit markets using a Macro Trading and Relative Value approach identifying opportunities with a short term (3-6 months) catalyst through bottom-up analysis. It will be managed by DW Investment Management, headed by David Warren who has 22 years experience in credit markets. He joined Brevan Howard as Head of Credit Trading in January 2009, before setting up DWIM in June 2009.

Convertible and credit strategies

CQS Diversified Fund – a feeder fund which will invest through CQS Diversified Fund, Segregated Portfolio Alpha (DVA). This fund provides exposure to five convertible and credit-focused strategies and has delivered net returns of 10.18% p.a. since inception in March 2007.

Seeded with £260m of PFI/PPP commitments

John Laing Infrastructure Fund - John Laing is seeking to raise £270m for a new closed ended investment company. The fund will be fully invested at launch and will use £260m of proceeds to purchase a seed portfolio of 19 operational PFI/PPP investments in the UK, Canada and Finland. The IRR target is 7-8% over the longer term and the fund expects to pay a yield of 6% p.a. from the first year. John Laing Investments will subscribe for at least 20% of the share capital (capped at 24.9%) and the fund expects to have "right of first offer to acquire certain investments made available for disposal by the John Laing Group for the next five years".

Secondary Fund Raisings

HICL seeking to raise up to £150m

In our last weekly, we highlighted that **HSBC Infrastructure** is looking to raise capital via a C share issue in mid-December. The proceeds raised will be no greater than the outstanding debt facility and any outstanding commitments or allocations made to investments by the close of the issue. Following a number of purchases in recent months, we believe the fund has utilised c£104m of its £200m debt facility. As a result, we believe that the fund will be seeking to raise capital of £100-150m. Other recent developments are highlighted below:

Premium is excessive

Fidelity China Special Situations - Managing the premium

The Board of Fidelity China Special Situations (£601m market cap) has announced that it is looking at ways to manage the fund's premium which currently stands at around 9%. The fund raised £460m in April this year, making it the largest investment trust new issue since the mid-1990s. Since then, it has performed well, with the NAV up to 114.5p, whilst the share price has been even stronger. In our view, this reflects a combination of investors seeking to increase exposure to higher growth economies such as China, the reputation of Anthony Bolton and the fund's promotion to the FTSE All Share in June which led to significant buying by index trackers.

Fund could renew blocklisting powers or issue a C share

Since launch, the premium has averaged 6% despite issuing 25m shares through a block listing facility, increasing the number of shares in issue to 485.45m. The fund still has the ability to issue a further 21m shares under this facility and would be able to seek shareholder permission to refresh the facility in order to issue a further 10% of share capital. Alternatively, the Board could decide to raise more capital through a C share issue. It is not clear to us why the Board has not been more active to-date in issuing shares to keep the premium down. In our view, it is just as crucial for a fund to manage its premium as it is to look after its discount, particularly if it has a retail oriented shareholder register.

Most investment trust launches are targeted at discretionary private wealth managers or institutions, whereas the Fidelity launch was targeted further down the distribution market. This was illustrated by heavy advertising and the decision to pay trail commission of 0.5% p.a. to intermediaries. The fund was heavily promoted by groups such as Hargreaves Lansdown and almost 50% of the share capital is held through Fidelity wrappers.

35% invested in mid/small cap stocks

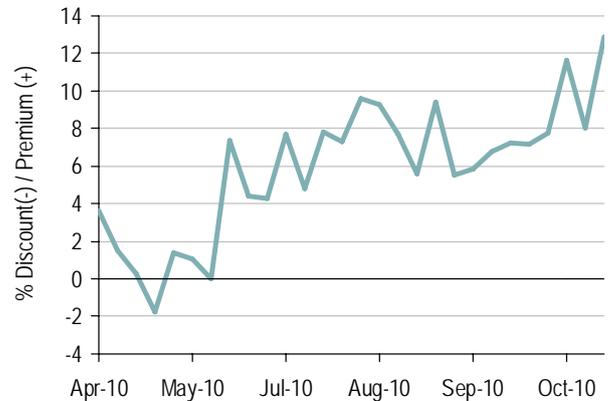
The fund aims to capture the domestic growth story of China and as a result the trust has substantial holdings in consumer discretionary businesses such as retailers, automobiles, lifestyle goods producers, restaurants and hotels, and also service areas such as financial services, internet companies and healthcare stocks. The portfolio manager continues to focus on small and medium cap. companies as these companies are less well researched and at 30 September the fund's portfolio had 34.9% in mid-caps (£1-5bn) and small caps (<£1bn) of 36.3% compared to the MSCI China benchmark's weighting of 19.4% and 0.1%, respectively. The Top 10 investments represent 36.4% of the NAV and include the telecom stocks China Unicom Hong Kong (4.8% of net assets) and China Mobile (4.5%), as well as the internet company/social network operator Tencent (3.2%).

Figure 20. Fidelity China Special Sits - Performance



Source: Datastream, Numis Securities Investment Companies Research

Figure 21. Fidelity China Special Sits – Premium History



Source: Datastream, Numis Securities Investment Companies Research

Two 10% issues have already been exhausted

JPMorgan Brazil* – Proposed further issues for up to 30% of share capital

At an EGM in mid-December, JPMorgan Brazil is seeking authority to issue up to 30% of its share capital on a non pre-emptive basis. The fund raised gross proceeds of £46.7m at its IPO on 26 April this year and has consistently traded at a premium reflecting strong demand from private client wealth managers. In order to meet this demand, the fund issued 4.7m shares (10% of the then share capital) and gained powers at the end of September to issue a further 10%, equivalent to 5.1m shares. This second tranche has effectively been exhausted and so the company has decided to increase the authority to 30% of the share capital. The Board feels that this is in the best interests of shareholders as it will enable the fund to meet demand without the expense of having to convene further general meetings in the near future. No shares will be issued at a discount to NAV.

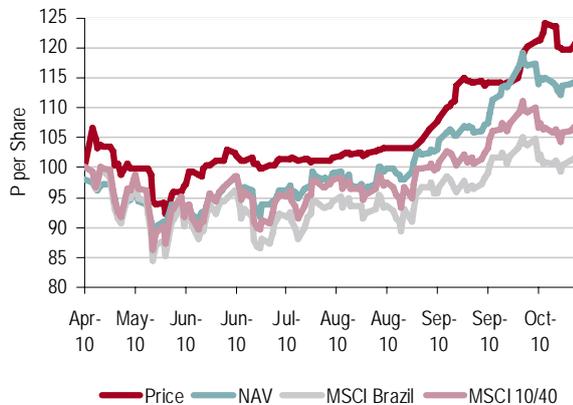
Fund could become eligible for FTSE All Share

In our view, this is a sensible move. JPMorgan Brazil is still a relatively small fund, with Ordinary shares in issue of 56.56m, and the new authority would enable it to raise a further £21m, based on the current share price of 120.75p. If all of these shares were issued, the fund may well be large enough for inclusion in the FTSE All Share Index which would lead to significant buying from index trackers. The fund is currently trading on a premium of 7.4%, while subscription shares which are trading at 43.25p.

Exposure to domestic growth in Brazil

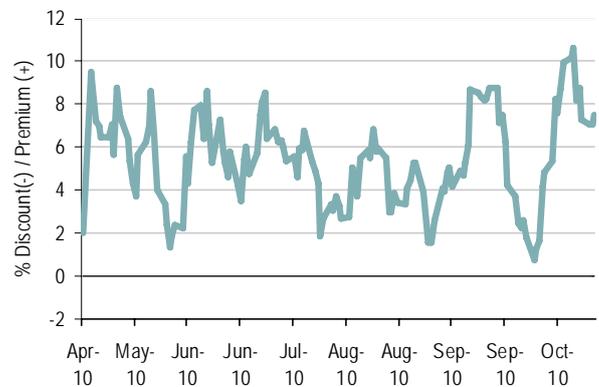
The fund, managed by Sebastian Luparia and Luis Carillo, provides exposure to Brazilian markets through a portfolio of around 40 holdings selected using a bottom-up stock picking approach, alongside fundamental top-down research. Performance is measured against the MSCI Brazil 10/40 Index (Sterling) though the manager focuses on stocks with a domestic bias. Performance has been strong since launch, helped by having no position in Petrobras. The emphasis is currently on industrials, consumer staples and consumer discretionary, while the fund is underweight materials, financials and energy.

Figure 22. JPM Brazil – Performance since launch



Source: Datastream, Numis Securities Investment Companies Research

Figure 23. JPM Brazil – Premium History



Source: Datastream, Numis Securities Investment Companies Research

Strong demand for high yielding funds

New City High Yield – Seeking to raise £15-25m

This high yield fund (£101m market cap) is seeking to raise between £15-25m through a Placing and Public Offer, which are due to close on 16 November. This follows the issue of 9.99% of the company's share capital in September which raised £8.6m and was considerably oversubscribed. The fund invests in a diversified portfolio of fixed income (74%) and convertible (26%) securities and pays a gross yield of 6.3% p.a. Performance has been strong, with a NAV total return of 56.3% over the past five years and the fund has traded on an average premium of 6% over the past 12 months, reflecting the strong demand for yield. Until September this year the portfolio was managed by Richard Lockwood, but he now holds a consultancy role and day-to-day management responsibility has passed over to Ian "Franco" Francis. Franco joined New City IM in 2007 as part of CQS' acquisition of the management group. He was formerly head of convertible trading desks at Collins Stewart and West LB Panmure.

C shares trading at a premium

Impax Asian Environmental – Raises £131m via C Share

Impax Asian Environmental Markets (IAEM) has raised £131m through a Placing and Offer of C Shares. The C shares will be issued at 100p and the costs of the C share issue were 2% of proceeds raised, resulting in an initial NAV of 98p. The C shares started trading on 27 October and are currently priced at 103.75p. They will convert into Ordinary shares once 80% of the net proceeds have been invested, or by 28 February 2011 if sooner. The conversion ratio will be based on the undiluted NAV of the Ordinary shares as C share holders will receive a bonus issue of Subscription shares on conversion that maintains the ratio of Ordinary to Subscription shares (1 for every 5.5 Ordinary shares). The subscription shares are currently trading at 36p and are exercisable daily up to 31 October 2014 at 100p. The Ordinary shares (£144m market cap) have traded at an average premium of 2% over the past year.

Table 1. Investment Company Issuance in 2010 YtD

	Mandate	Capital Raised (£m)	Market Cap (£m)	Date	Issue Price	Current Price	Est. NAV	Prem(+)/ Disc(-)	Sub. shares Ratio	Return on Price Issue# (%)	
Total Capital Raised		3,002									
IPOs		1,427									
Aberforth Geared Income (package)	UK SmCos	75	77	30-Apr	100	103.2	93.0	(4.9)	-	-	3.2
Aberdeen Latin American Income	L.Am equity/debt	52	58	16-Aug	100	111.3	107.4	3.6	1 for 10	19.25	13.2
Baker Steel Resources	Pre-IPO resources	66	65	23-Apr	100	98.3	91.9	6.9	1 for 5	19	2.1
Damille Investments	Activist fund investor	33	40	31-Mar	100	104.0	93.3	11.5	-	-	4.0
Fidelity China Special Situations	Chinese equity	460	608	19-Apr	100	125.2	114.6	9.2	-	-	25.2
GCP Infrastructure Investments	Infrastructure debt	40	48	22-Jul	100	112.0	99.4	12.7	-	-	12.0
HarbourVest Senior Loans Europe	Buyout loans	101	102	25-May	100	101.0	97.2	3.9	-	-	1.0
JPMorgan Global Emg.Mkts Income	Emg.Mkt equity	104	131	29-Jul	100	115.5	109.4	5.5	-	-	15.5
JPMorgan Brazil	Brazil equity	46	69	26-Apr	100	122.3	113.8	7.4	1 for 5	42.75	30.8
Masawara	Zimbabwe	50	58	19-Aug	50	58.0	50.0	16.0	-	-	16.0
Metric Property	UK retail property	175	198	24-Mar	100	104.3	96.0	8.6	-	-	4.3
NB Distressed Debt	Senior debt	136	280	10-Jun	\$1.005	1.0	1.0	6.2	1 for 5	\$0.065	4.3
Polar Cap Global Healthcare	Healthcare equities	89	93	15-Jun	100	104.0	98.3	5.8	1 for 5	13	6.6
Secondary at NAV/Premium		1,165									
Better Capital	UK turnaround	68	234	25-Jun	105	113.0	98.5	14.7	-	-	7.6
BlackRock Commodities Income	Energy and mining	20	129	27-Sep	100	142.8	139.5	2.3	-	-	
Bluecrest AllBlue - £	Macro hedge fund	349	959	21-Jun	161.68	172.9	164.9	4.9	-	-	6.9
Bluecrest AllBlue - £	Macro hedge fund	83	959	23-Sep	165.20	172.9	164.9	4.9	-	-	4.7
International Public Partnerships	Infrastructure	89	532	26-Jan	113.75	111.0	108.9	1.9	-	-	(2.4)
Impax Asian Environmental	Asian environmental	131	280	22-Oct	100	102.8	97.9	3.5	1 for 5.5	36	9.3
LXB Retail Properties	UK retail property	39	158	14-Jul	96	102.0	94.8	7.6	-	-	6.3
MedicX Fund	Primary healthcare property	25	104	10-Mar	72	73.8	66.9	10.3	-	-	2.4
NB Distressed Debt	Senior debt	153	280	18-Oct	\$1.005	1.03	0.97	6.2	-	-	2.5
New City High Yield	Fixed Income	9	101	13-Sep	56.33	59.75	57.1	4.7	-	-	6.1
Ruffer	Absolute return	50	246	14-Sep	188	197.3	186.7	5.6	-	-	4.9
UK Commercial Property	UK commercial property	150	951	15-Jan	77.1	79.5	74.9	6.1	-	-	3.0
Secondary at Discount		104									
Aurora Russia	Russian private equity	7	38	21-Jan	40	34.0	88.0	(61.4)	-	-	(15.0)
HgCapital Trust	Europe mid buyout	50	297	01-Apr	845	955.0	1,019.4	(6.3)	1 for 5	90	15.1
Invista Foundation Property	UK commercial property	12	147	13-Jul	38	41.3	49.9	(17.3)	-	-	8.6
Japan Residential Investment	Japanese residential property	35	85	15-Jun	40	45.3	66.8	(32.3)	-	-	13.1
Secondary Tap Issues		306									
Murray International	Global equity income	58	931	-	-	911.5	864.2	5.5	-	-	-
HSBC Infrastructure Co	Infrastructure	56	583	-	-	117.4	108.3	8.4	-	-	-
International Public Partnerships	Infrastructure	27	532	-	-	111.0	108.9	1.9	-	-	-
Fidelity China Special Situations	Chinese equity	27	608	-	-	125.2	114.6	9.2	-	-	-
Personal Assets	Global growth	22	269	-	-	30,938.0	30,575.1	1.2	-	-	-
Henderson Far East Income	Asian equity income	18	328	-	-	334.3	323	3.6	-	-	-
City of London	UK equity income	17	614	-	-	285.7	277.8	2.8	-	-	-
Ruffer	Absolute return	12	246	-	-	197.3	186.7	5.6	-	-	-
Schroder Oriental Income	Asian equity income	11	256	-	-	158.5	151.8	4.4	-	-	-
JPMorgan Global Emg.Mkts Income	Emg.Mkt equity	10	131	-	-	115.5	109.4	5.5	-	-	-
JPMorgan Brazil	Brazilian equity	9	69	-	-	122.3	113.8	7.4	-	-	-
Aberdeen Asian Income	Asian equity income	9	192	-	-	164.0	157.4	4.2	-	-	-
Other (est.)		30	-	-	-	-	-	-	-	-	-

excludes dividends paid, but includes subscription share value, where relevant
Source: Numis Securities Investment Companies Research

Listed Private Equity

News has generally been positive

In our last weekly report, we highlighted value in the listed fund of funds given the potential to sell portfolio investments in the secondary PE market at tighter discounts. NB Private Equity sold eight large-cap buyout funds at an average discount of 5%, whilst Princess PE also announced plans to realise investments on a selective basis. There have been no announcements from other funds on the sector on this subject. Nevertheless, news within the listed private equity sector has generally been positive over the past couple of weeks. In particular, SVG Capital* announced a strong rise in its NAV in Q3 (discussed in more detail below). Furthermore, the unquote Private Equity Barometer highlighted a return of large buyouts in Europe during Q3 2010, with six transactions in excess of €1bn being carried out, equalling the total value of large buyouts over the previous 18 months. The large cap buyouts during Q3 included the public to private transaction of Tomkins (€3.5bn), as well as the sale of Sunrise Communications (€2.6bn) by TDC to CVC Capital Partners. Although the level of mid-market buyouts declined in Q3, the total value of European buyouts reached €21.4bn, an increase of 89% from Q2.

Results

SVG Capital* - NAV up by 21.8% in Q3

Price has rallied, but SVG remains on a 25% discount

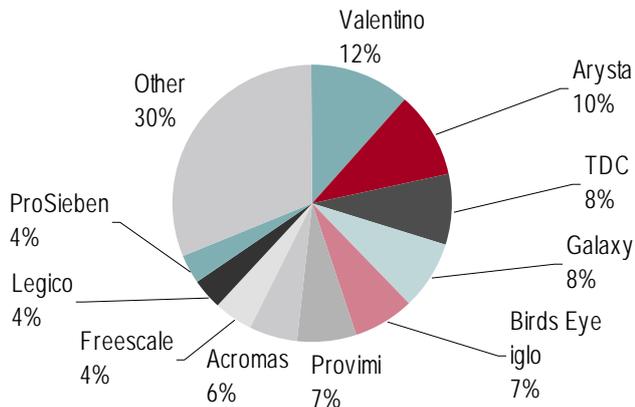
SVG Capital's NAV was 254.4p (excl. SVGA) at 30 September, up 21.8% from 30 June and by 28.4% during the first nine months of 2010. This is the first time that SVG Capital has reported a quarterly NAV and follows Permira's recent move to quarterly NAV reporting. The gains in Q3 were driven by stronger earnings, expansion of multiples and deleveraging, as well as favourable movements in foreign exchange (strengthening Euro). The share price rallied by 5.7% following the IMS, but the current price of 209.7p still represents a discount of 25% (or 18% excluding the 24.4p valuation for SVG Advisers). SVG Capital will report its final results for 2010 on 14 February 2011.

Strong underlying earnings growth

- **Portfolio valuations driven by strength in earnings:** Excluding the positive impact of currency movements, the value of the portfolio was up by 12.4% in Q3 driven by the continued recovery in the operating performance and earnings of the underlying companies in the Permira funds' portfolio. Deleveraging continued at a number of the portfolio companies including Arysta LifeScience, TDC and Provimi. Including currency movements the investment portfolio increased by 16% in the quarter. 92.9% of the portfolio was revalued at 30 September, whilst the remainder was valued at 30 June.
- **Major portfolio movements:** Galaxy Entertainment (10.9% of net assets) was written up by £31.7m or 56.4% from 30 June following a 64% increase in the share price of this Hong Kong listed Macau casino/hotel operator. Hugo Boss/Valentino (16.5% of net assets) remains the fund's largest investment and was written up by £22m in the quarter due to earnings strength, multiples improvement and deleveraging. Hugo Boss which is listed on the Frankfurt Stock Exchange recently raised its guidance with 2010 EBITDA forecast to grow by around 20% following a strong Q3. Arysta LifeScience (14.3% of net assets) was written up by £24.5m benefiting from earnings improvements, multiple expansion and deleveraging. Arysta's valuation was broadly flat in H1 2010 as the contraction in multiples offset the improvement in underlying earnings. TDC (11.6% of net assets) was written up by £16.2m benefiting from the effective deleveraging in the business following the

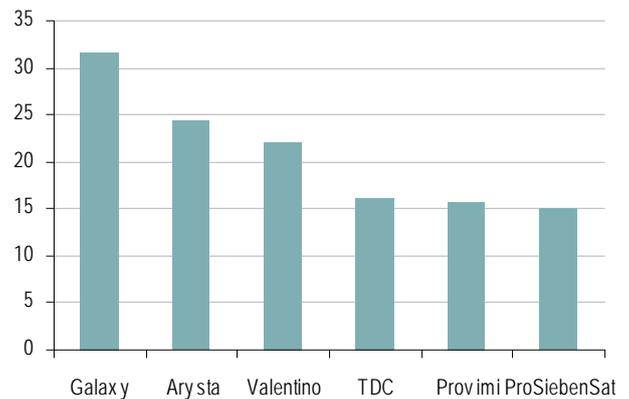
divestment of its Swiss subsidiary Sunrise Communications to CVC Capital Partners for CHF3.3bn, which is due to close later this year. The German media company ProSiebenSat. 1 was written up by £15m to £40.5m, after being written up from nil in H1 2010.

Figure 24. Portfolio at 30 September (% of investments)



Source: SVG Capital

Figure 25. Significant movers in Q3 2010 (£'m)



Source: SVG Capital

Cognis proceeds expected in December

- Portfolio activity:** There were calls of £27.4m and distributions of £28.5m in the quarter. However these figures exclude the £27.6m proceeds from the disposal of Cognis which is not expected to complete until later in Q4 and calls of £21m to P IV for management fees and follow-on investments. The distributions include proceeds of £16.4m from the disposal of three warehoused fund assets, which were sold broadly in-line with the carrying values at 30 June and releases SVG Capital from £11.9m uncalled commitments. SVG Capital had previously announced their intention to dispose of the warehoused assets as they are non-core but wanted to wait until pricing improved.

Net debt of 42% but no uncovered commitments

- Improved balance sheet:** Shareholders' funds at 30 September were £806.2m with net debt of £337.5m (41.9% of net assets). The fund's credit facility of €325m expires in January 2013 and its cash/undrawn bank resources of £269.6m more than cover uncalled commitments of £262.2m. The fund is well within the covenants on its banking facility and maintaining the strength of the company's balance sheet remains a priority for management. The balance sheet will be further strengthened by the net proceeds of the Cognis disposal.

Significant upside remains

- Numis Views:** We believe that SVG Capital offers investors geared exposure to a recovery in corporate earnings. There is further evidence that Permira's active management has led to significant improvements in the health of the portfolio. There remains scope for recovery in the value of P IV investments and the pace of realisations is expected to pick up from the more mature holdings in P II and P III next year.

NAV boosted by sale of Apparel Ventures

JZ Capital Partners – NAV increased by 8.2% at 31 August

JZ Capital Partners (£205m market cap) reported a NAV of \$7.62 per share at 31 August, an increase of 8.2% from 28 February. The increase was driven predominantly by the revaluation of Apparel Ventures (4.1% of net assets), a long-term legacy investment which was sold in October, positive market movements in the listed investments and an increase in the value of bank debt holdings. 35.4% of the portfolio is invested in Micro-Cap Buyouts, 14.9% Mezzanine Investments, 13.6% Listed Equities, 7.9% Bank Debt, 7.7% Legacy Portfolio and 20.5% Cash (mainly US treasuries). The fund is currently trading at a discount of around 33%.

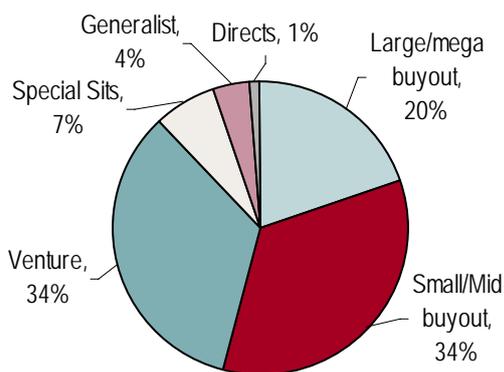
Pantheon– Q3 NAV decreased by 1.5% due to currency movements

This Private Equity Fund of Funds (£384m market cap, inc. redeemable shares) has released a NAV of 944.2p at 30 September, a decrease of 1.5% (14.5p per share) from 30 June. Portfolio valuation gains of £11m (16.6p) were more than offset by losses from exchange rate movements of £19m (28.6p) due to a 3.6% strengthening of the US dollar against Sterling over the quarter (70% of the investment portfolio is US\$ denominated). In February 2010, PIP redenominated its banking facility of £150m from Sterling to 50:50 US\$/Euros to better match the fund's foreign exchange profile.

Valuation lag should be positive for next NAV

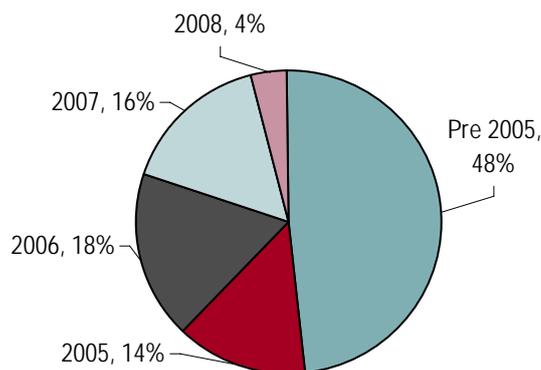
PIP's NAV is subject to a quarterly time lag and 93% of the portfolio valuations were based on data from 30 June. General stock markets were weak during the three months between April and June (-13.1% for the MSCI World in US\$) and this would have put downward pressure on 30 June portfolio valuations given the use of comparable quoted multiples. However, global stock markets recovered by 13.2% in Q3 and have risen by a further 4.6% since 30 September. This should benefit Pantheon's next NAV valuation at 31 December. Relative to other listed fund of funds, PIP's portfolio is mature and has a high weighting in Venture.

Figure 26. PIP – Portfolio by Asset Class at 30 June



Source: Pantheon

Figure 27. PIP – Portfolio by Vinage at 30 June



Source: Pantheon

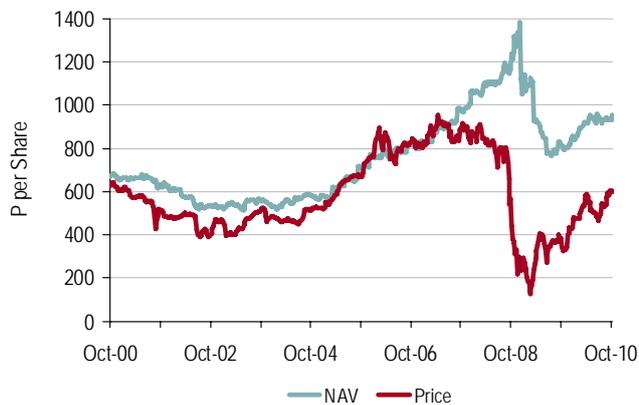
Balance sheet remains constrained

During Q3, the fund received distributions of £29.5m and calls of £23m. No new commitments were made and we believe that it is unlikely to do so until there is a sustained recovery in the level of distributions. At 30 September, Pantheon's net debt was £131.9m, equivalent to 21% of net assets. Outstanding commitments were £303m or 48% of net assets, which compares to 98% at the end of 2008. The fund had available financing of £168m, comprising £51.7m of cash, £67.5m undrawn of a £150m multi-currency bank facility and £49.5m standby financing (allowing for the issue of £51m of unsecured subordinated loan notes in late September / early October).

Dual share class reduces liquidity for investors

PIP has two quoted share classes, Ordinary shares (£228m market cap) and Redeemable shares (£156m market cap). This structure was introduced to overcome the problem of "cash drag" on NAV returns. However, it means that the fund's trading liquidity is poor relative to its size and there is virtually no turnover in the redeemable shares. The Ordinary shares are currently trading at 608p, representing a discount of 35.6% to the NAV at 30 September.

Figure 28. PIP – Price & NAV Returns



Source: Datastream, Numis Securities Investment Companies Research

Figure 29. PIP – Discount History



Source: Datastream, Numis Securities Investment Companies Research

Investments

Provider of fiduciary and administration services

HgCapital Trust - Invests £10.3m in ATC Group

HgCapital has acquired a 61% stake in ATC Group, a leading independent provider of corporate services to multinational corporations and financial institutions. ATC was founded in 1893 and headquartered in Amsterdam providing fiduciary, management and administration services to multinational corporations, financial institutions, investment funds. HgCapital has bought out three manager shareholders while the remaining management team will collectively own a 39% stake. ATC's ambition to accelerate growth in the coming years prompted shareholders and management to seek external capital investment. With the assistance of HgCapital, ATC Group will be able to develop its market strategy, reinforcing its position in Europe with a significant footprint in Asia. The investment in ATC was completed by HgCapital after two years of research into the trust and fiduciary services market. HgCapital has invested £69m of equity in the deal, which is expected to complete in December. HgCapital Trust (HGT), the listed fund, investing £10.3m equivalent to 3.2% net assets.

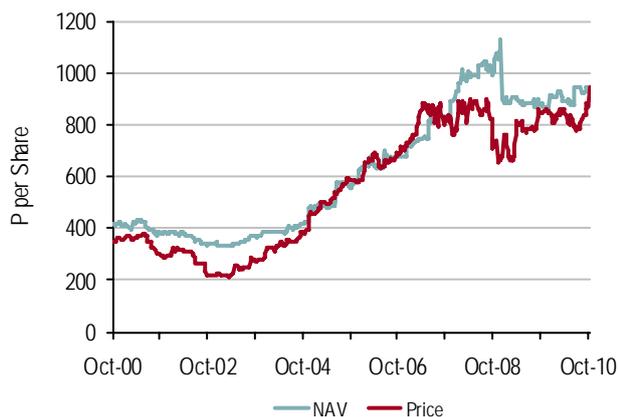
Eighth new investment in 2010

This is the eighth investment that HgCapital has made in 2010 and we estimate that the cash resources of HGT (£297m market cap, 6% discount) are now £50.3m, equivalent to 15% of net assets. The fund has no gearing facility at present, but we believe that the Manager and Board are in preliminary discussions with banks to put in place a revolving credit facility. Furthermore, HGT's current share price of 955p is now above the first exercise price on the warrants of 950p up to 31 October 2012 which has the potential to raise up to £59m. In addition, we believe Pulse Staffing (7.7% of net assets) is a potential candidate for sale in the next six months.

Portfolio is now very young, but earnings growth is strong

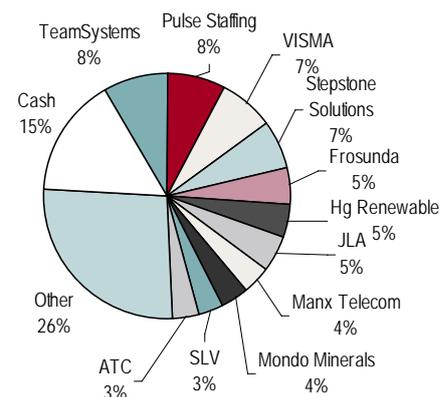
Much of HGT's portfolio is represented by recent deals and in the near term, we believe that NAV growth may be subdued unless there is a rise in earnings multiples. However, the interim results highlighted strong earnings growth across the portfolio with the top 20 investments (92% of the investment portfolio) increasing revenues by 6% and EBITDA by 17% over the 12 months to June 2010. Furthermore, the average debt/EBITDA multiple of 2.9x for the top 20 buyout investments is modest. As a result, HGT remains our core recommendation in the listed private equity sector for investors with a long term view.

Figure 30. HgCapital Trust – Performance



Source: Datastream, Numis Securities Investment Companies Research

Figure 31. HgCapital Trust – Portfolio



Source: Numis Securities Investment Companies Research

Over £2bn AUM

Oakley Capital - Acquisition of BDO Investment Management

Oakley Capital Private Equity LP has acquired an 84.4% stake in BDO IM, an independent provider of investment advice and solutions to private individuals and corporates in a deal with an Enterprise Value of £14m. BDO has over £2bn of assets under management with three divisions: Asset Management; Corporate Pensions and Benefits; and Private Client. The Board considers that Oakley's investment will enable BDO IM to build further scale and take advantages of growth opportunities within the financial services market. David Pitman, former CEO of Close Wealth Management will be appointed as CEO.

No details released on amount of equity invested in the deal

Oakley Capital Investments (OCL) was launched on AIM in August 2007 and acts as a feeder fund to the €288m Oakley Capital Private Equity LP which invests in unquoted mid-market UK and European businesses, typically with an enterprise value of £20-150m (OCL represents 65% of the LP's total commitments). In September, Host Europe was sold to Montagu Private Equity which left the fund with a substantial cash weighting of around 70% of assets. No details have been provided on the amount of equity invested in the deal. Prior to this acquisition, the fund had four investments including Daisy Group, an AIM quoted telecom services provider, and Verivox, a German consumer price comparison website.

Realisations

3i Group – Realisations picking up in FY H2

IRR of more than 25%

3i Group has sold **MWM** (Motoren-Werke Mannheim), the German engine manufacturer, to Caterpillar for an enterprise value of Eur580m (£515m). According to media reports, Caterpillar is paying 13-14x this year's EBITDA, generating a 2.2x return on 3i's investment in MWM and an IRR in excess of 25%. At 31 March, MWM was 3i Group's sixth largest investment representing 4.1% of net assets, with a value of £127m and a residual cost of £69m

Realisations picking up after weak FY H1

After a quiet FY H1, we expect the level of realisations from 3i's portfolio to pick up in the six months to 31 March 2011. According to media reports, **Norma Group**, a provider of engineered joining technology, is a potential IPO. 3i invested in Norma Group in 2005 and the holding is currently valued at £97m (3.2% of net assets), compared with a residual cost of £27m. 3i is also expecting selling Hyva Investments (3.2% of net assets), the Dutch manufacturer of hydraulic pumps for waste and tipper trucks, and is in the process of disposing of its 40% stake in Sir Norman Foster's architect business **Foster & Partners** (3.7% of net assets). According to press reports, 3i has also appointed Deloitte to look at the strategic options for **Fairline**, the luxury yacht and powerboat manufacturer.

Three parties reported to be interested in Wagamama

Graphite Enterprise – Wagamama sale update

According to media reports, the sale of Wagamama, the noodle bar chain, has entered the second round of the auction process with bids due in two weeks. Three parties are reportedly interested: the AIM quoted India Hospitality Corp which is prepared to pay at least \$400m (£249m), as well as Morgan Stanley Private Equity and Investcorp, the Bahrain-based buy-out group. Lion Capital is the majority shareholder in Wagamama with a stake of 70%, while Graphite Capital and the management team hold minority stakes. Graphite Enterprise stated in its interim results in September that it expected realisations in the remainder of the financial year to be materially higher than the "abnormally low" H1 when realisations were just £6.7m. As well as Wagamama (3.5% of net assets at 31 July), a number of portfolio companies have been put up for sale including Micheldever (4.6%) and Park Holidays (1.9%).

We produce a daily datasheet tailored to listed PE

Our detailed **Listed Private Equity datasheet** is available via the link: [Numis Inv Cos Private Equity Datasheet](#).

Table 2. Private Equity Fund News (22 October - 3 November 2010)

Fund	Ticker	Date	Headline	Theme
unquote" Private Equity Barometer		26-Oct-10	Large buyouts happening again	Index
Aurora Russia*	AURR	28-Oct-10	Proposed changes in manager incentive arrangements	Fees
3i Group	III	25-Oct-10	MWM disposal expected to be start of busy period for realisations	Investments
Graphite Enterprise	GPE	04-Nov-10	Wagamama sale update	Investments
Graphite Enterprise	GPE	25-Oct-10	Potential sale of Park Holidays UK	Investments
Greenwich Loan Income	GLIF	26-Oct-10	Potential offer for Asset Management Inv Co	Corporate Action
HgCapital Trust	HGT	04-Nov-10	Invests £10.3m in ATC Group	Investments
JZ Capital Partners	JZCP	28-Oct-10	NAV increased by 8.2% at 31 August	NAV
Oakley Capital Investments	OCL	04-Nov-10	Acquisition offer of BDO Investment Management	Investments
Pantheon International	PIN	03-Nov-10	Q3 NAV decreased by 1.5% due to currency movements	NAV
PSource Structured Debt*	PSD	27-Oct-10	PetroAlgae agrees construction of pilot facility	Investments
SVG Capital*	SVI	05-Nov-10	TDC IPO	Investments
SVG Capital*	SVI	28-Oct-10	NAV up by 21.8% in Q3	NAV
VinaCapital Vietnam Opportunity	VOF	28-Oct-10	Regular tender, buybacks and possible migration of listing	Corporate Action

Source: Numis Securities Investment Companies Research

Other Investment Company News

In this section, we provide a summary of recent Investment Company news, organised by asset class (please contact us if you would like to receive our daily email). Our Listed Funds datasheet is available via the link: [Numis Inv Cos Datasheet](#).

Listed Hedge Funds

FRM Credit Alpha – Future uncertain as continuation vote approaches

Vote on 24 November

This credit focused Fund of Hedge Funds (£48m market cap, 21% discount) faces a continuation vote on 24 November and we believe that the outcome is uncertain due to the fund's small size, wide discount and disappointing performance record. If this vote is passed, further continuation votes will be held at the AGM in 2011.

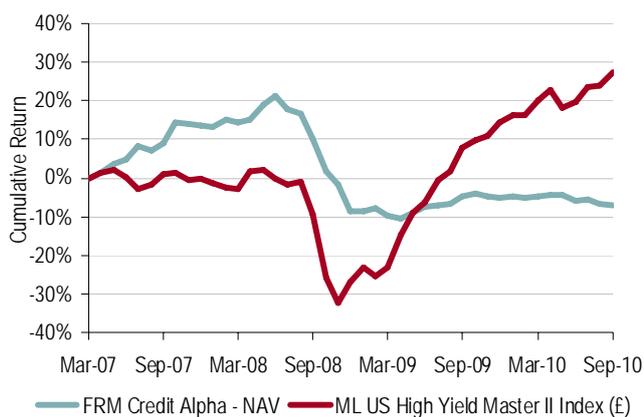
Managers believe that shareholder returns will be maximised by continuation

The managers believe that a forced sale of the portfolio would not maximise value for shareholders. In any case, they intend to realise the Credit Value positions (which represent 32% of the portfolio). There are currently five Credit Value funds in the portfolio and all are liquidating share class positions which means that no new trades are carried out. Many of the underlying positions are event driven private equity holdings, typically in mid/smaller companies. These positions are illiquid, but there have been signs of a pick-up in activity in the past few weeks giving the prospect of capital being returned to FRM Credit Alpha. The aim would be to return this capital to shareholders through share buybacks in the near term, although there is also a commitment to return up to 20% of the share capital at NAV less costs in December 2011 and 2012.

Significant cash held to maintain the currency hedge

The fund intends to maintain sufficient cash to maintain the currency hedge. As at 30 September, while the liquidity profile of the fund was 5% immediate, 11% monthly, 21% quarterly, 13% semi-annual, 11% less than a year, with the remaining 39% having no specified liquidity. This includes 12% held in cash/cash equivalents,

Figure 32. FRM Credit Alpha – Performance



Source: FRM

Figure 33. Performance of L/S Credit v Credit Value



Source: FRM

Performance hit by credit value positions

Ingrid Neitsch, the portfolio manager, is highly experienced and has a good track record in other credit vehicles. However, FRM Credit Alpha's performance has been hit by the disappointing performance of the Credit Value positions, as well as the sale of more liquid positions in 2009 to maintain the currency hedge and to return capital to shareholders. The fund performed well in its first 12 months (NAV +15%), but has largely missed out in the post credit crisis rally and the NAV is up just 1.6% since the start of 2009, compared with an increase of 70% in the ML HY Master II Index in Sterling terms. Over the past 12 months, the NAV down 2% compared with a rise of 9% for both Acencia Debt Strategies and Signet Global Fixed Income Strategies*.

An argument to give the fund another year, but its long term future remains in doubt

The illiquid nature of the portfolio means that a wind-up of FRM Credit Alpha would not be straightforward and, in our view, there is an argument for shareholders to give the managers another year. The liquidity of the underlying portfolio should gradually improve as the Credit Value holdings are realised and the managers are committed to buybacks. On the other hand, the fund is small with net assets of just £60m and we believe its future remains in doubt even if it survives the forthcoming vote. We feel that the closed-end fund structure is suited to credit funds and this is backed up by the recent demand for NB Distressed Debt, as well as the proposed launches of Credit funds by Brevan Howard and CQS. However, investors want liquidity and are increasingly reluctant to hold small funds under £100m market cap.

Continuation vote on 14 December

Value Catalyst Fund – Continuation vote and stance on Alliance Trust

At its AGM on 14 December, Value Catalyst Fund (VCF) faces a continuation vote. VCF (£41m market cap) is an AIM traded fund managed by Laxey Partners which invests in closed-end funds and property related assets trading at discounts to net asset value (with a focus on funds listed in the UK or Australia). Laxey takes an active role in encouraging companies to take corporate action to narrow their discounts and so it is somewhat ironic that VCF itself is trading on a discount of 33%.

Commitment to return some cash when debt is repaid

The Board is recommending that shareholders vote in favour of a continuation of the company and believes that it has support from the majority of shareholders. However, shareholders have indicated that the largest holdings should be realised "*so as to extract the maximum value over the optimal time frame*" in order to generate cash available for distribution to shareholders who wish to exit or reduce their interest in the company (subject to the repayment of VCF's leverage which was equivalent to 40% of net assets in mid-October).

Portfolio is illiquid

VCF's performance has been poor having been hit hard in the credit crisis during 2008, with the NAV down by 43% and the share price by 65% over the past five years on a total return basis. VCF had three substantial equity positions going into the crisis which represented 150% of net assets at 30 June 2009. One of these, Implenia, was sold last year. Another is DouglasBay Capital (27% of gross assets), which made an agreed offer for TDG, the UK logistics business and has performed well since purchase. The third is Celtic Property Developments (29% of gross assets), a Polish property developer that aims to join the Warsaw SE in December 2010 (this is not a liquidity event for VCF). For the fund to be in a net cash position, one of the two remaining core investments will need to be realised. The Board believes that it could take a further two-three years to realise these investments "at a price that reflects fair value" and to realise the remaining portfolio (it estimates that 54.1% of the portfolio could be sold within 1 year, a further 12.7% within 2 years and 33.3% within 3 years). It has indicated that it would seek to delist VCF should the continuation vote fail "*in order to save costs and reduce time for any further distributions*".

Laxey intends to raise discount issues with Alliance Trust

VCF has been involved in a number of reorganisations over the past year, including Throgmorton Trust, Framlington Innovative Growth, Eircom Holdings, vanEyk Three Pillars and Invesco English & International. Laxey also stated that it has taken a substantial position in Alliance Trust* and “*will shortly be raising some specific issues with them seeking clarification of their intentions regarding enhancing discount management and other corporate governance issues which we will call for and may seek a vote on*”. Alliance Trust is currently trading on a discount of 17% and has a market cap of £2.355bn.

Table 3. Hedge Fund News (22 October - 3 November 2010)

Fund	Ticker	Date	Headline	Theme
FRM Credit Alpha	FCAP	01-Nov-10	Realising credit value portfolio to return capital	Corporate Action
Value Catalyst Fund	VCF	05-Nov-10	Continuation vote and stance on Alliance Trust	Continuation Vote

Source: Numis Securities Investment Companies Research

Property

Daniel Baynes will take day to day management responsibility for UKCM

UK Commercial Property – Management changes and Q3 NAV

Ignis AM has created a new standalone business unit for the £2.6bn of real estate assets under its management “*in order to build on a sustained period of outperformance and strong asset growth*”. Key management roles in Ignis Real Estate will be taken by Gary Hutcheson (MD), Steven Beveridge (CEO) and Robert Boag (Senior Investment Director). Ignis has attracted net inflows of £800m so far this year and it has made a number of new hires to strengthen the team to more than 30 people. Alan Gardner has joined from Jones Lang LaSalle as Head of Research, whilst Daniel Baynes and Chris Brydie are joining as Real Estate Asset Managers. Daniel will be responsible for the day-to-day management of the assets of UK Commercial Property Trust (£945m market cap), while Chris will take on the same role for the £700m Ignis Property Trust.

The NAV of UK Commercial Property Trust at 30 September was 75.3p (after deduction of 1.3125p dividend), down 0.3% from 30 June. The property portfolio increased 0.64% to £888.1m with Retail assets recording the strongest capital growth of 1.85%. However, Industrial assets declined 0.21%, whilst performance was mixed across Office assets which suffered an aggregate capital value decline of 1.12%. The portfolio is spread 54.7% Retail, 29.8% Offices and 15.5% Industrial. There was a marginal reduction in void rates to 4.1% (excluding pre-lets) which compares favourably to the equivalent IPD void rate of 9.94%.

As at 30 September the company had drawn down £42.1m of its £80m seven year loan facility with Lloyds, representing 4.4% of gross assets. With cash of £85m the fund has plenty of firepower for new purchases although the manager states that the “*quality of assets at the right price remain difficult to source*”. The shares are currently trading on a 6% premium and yield 6.1%.

Table 4. Property – Developed Markets News (22 October - 3 November 2010)

Fund	Ticker	Date	Headline	Theme
London & Stamford Property	LSP	05-Nov-10	£82m acquisition of distribution portfolio	Investments
Max Property	MAX	28-Oct-10	£9.4m nightclub acquisition	Investments
NewRiver Retail	NRR	28-Oct-10	Converting to a REIT	Corporate Action
UK Commercial Property	UKCM	02-Nov-10	Ignis AM – Creates new business unit for its real estate assets	Corporate Action
UK Commercial Property	UKCM	27-Oct-10	Q3 NAV down 0.3%	NAV
Tamar European Industrial	TEIF	22-Oct-10	Extension of senior debt	Debt

Source: Numis Securities Investment Companies Research

Table 5. Property – Emerging Markets News (22 October - 3 November 2010)

Fund	Ticker	Date	Headline	Theme
Ishaan Real Estate	ISH	02-Nov-10	Increased lettings and development costs	Investments
JSM Indochina	JSM	25-Oct-10	Weak outlook for remaining asset sales	Investments
NR Nordic & Russia Properties	NRP	05-Nov-10	Accelerates sales programme	Investments
Pacific Alliance China Land	PACL	25-Oct-10	4.6% exit via tender	Tender Offer
Vinaland	VNL	03-Nov-10	Partial sale of stake in Hanoi residential project	Investments
Vinaland	VNL	29-Oct-10	To distribute 50% of realisation proceeds	Corporate Action

Source: Numis Securities Investment Companies Research

Infrastructure

GCP Infrastructure Investments – Master Fund closed for three months

Master Fund closed until end of Feb-2011

GCP Infrastructure is a feeder fund into an OEIC Master Fund. The Master Fund has now been closed to net new investment after experiencing faster than expected monthly inflows, which includes £1.575m raised by the listed fund in October. The closure is to prevent the level of uninvested cash in the Master fund increasing further and will initially last for a three month period from 1 November to 28 February (although it may be subsequently reintroduced). The fund is currently trading on a premium of 13%.

The NAV of GCP Infrastructure Investments was 99.35p at 29 October 2010 based on the latest NAV of the Master Fund of 100.9p after accounting for cash and other assets, accrued liabilities and expenses. At 30 September, the investment portfolio of the Master Fund, which invests in PFI debt, comprised £36m of assets including £21.83m of sub-debt with an expected life of more than 28 years and £14.17m of senior debt guarantees with an expected life of 10 years. By sector, the investments were split 39% healthcare, 31% leisure, 26% education, 2% housing and 2% street lighting. The investments generate a yield of between 9.5% and 10.5% p.a. The valuation agents use a weighted average discount rate of 10% to value the portfolio.

3i Infrastructure – Acquisition of Eversholt

Eversholt was previously an investment of Candover and Electra

Eversholt Investment Group, a consortium comprising equal stakes from 3i Infrastructure (3IN), Morgan Stanley Infrastructure, and Star Capital Partners is to acquire Eversholt Rail Group, a rolling stock company with £2.1bn of gross assets from HSBC Asset Finance. 3IN will contribute £176m of equity instruments, making Eversholt its second largest investment in the portfolio after AWG. The price paid is “*modestly above the carrying value at which such assets are stated in HSBC’s books*”. Those with long memories of the investment trust sector will recall that Eversholt was previously a successful investment for Candover and Electra who sold the company to HSBC in 1997.

Eversholt owns 29% of the total British rail stock with 19 fleets leased to seven train operating companies. Revenues are primarily derived from long-term lease payments. Whilst more detailed financials will not be available until the deal concludes at the end of the year, 3IN’s management indicated that it will be income accretive to the fund immediately. The managers describe the investment as ‘core infrastructure’ which we would expect to generate returns between 10-16%. As at 27 September, 3IN had a cash balance of £297m of which £95m is committed to the 3i India fund. The group also has an unutilised revolving credit facility of £225m. 3IN (£923m market cap) is currently trading around NAV and pays a yield of 4.9%.

Project has a value of £101m

Connection to wind farm in Irish Sea

INPP* – Preferred bidder on a further offshore transmission project

Transmission Capital Partners, a consortium comprising International Public Partnerships (INPP), Amber Infrastructure (manager of the INPP portfolio) and Transmission Capital, has been announced preferred bidder on an offshore transmission project with a capital value of £101m.

The consortium will be granted a licence by Ofgem to own and operate the transmission cable connection to the offshore wind farm at Ormonde in the Irish Sea, 10km off Barrow-In-Furness. On completion in 2011, the wind farm will have generation capacity of 150MW, sufficient to supply 100,000 homes with clean power. The concession term is 20 years and revenue will be regulated (with no periodic regulatory review) and fully linked to UK RPI. There is no energy volume, price risk or stranding risk for the operators making it an attractive, availability based income stream.

The consortium has now been awarded four projects in this sector with an aggregate purchase price of £244m and it is shortlisted on a further scheme to be announced in early 2011. More detailed financial information is expected when the projects reach "financial close" although commentators have suggested the equity commitment to this type of project could be in the range of 10-20% of the total capital value and IRRs are expected to be similar to PFI investments at 10-15%.

Given the attractive revenue characteristics of these assets, we believe they fit well with INPPs target of delivering "*long-term distribution levels that are attractive and sustainable*". We are also encouraged by the potential pipeline of future projects in this sector, including Ofgem estimate to have a total development value of £14bn over the next nine years. Given the specialist knowledge of the INPP consortium we believe the fund is well placed to capture further wins. INPP is currently trading around NAV and yields 5.0%.

Other Sector Specialist

Greenwich Loan Income – Potential offer for Asset Management Inv Co*

The boards of Greenwich Loan Income (GLIF) and Asset Management Investment Company* (AMIC) are in discussions with a view to GLIF acquiring the entire share capital of AMIC. The proposed acquisition would offer AMIC shareholders either a cash exit at an 8% discount to NAV or shares in GLIF. The number of GLIF shares will be calculated based on GLIF's price of 28.25p when the deal was announced and applying an 8% discount to AMIC's NAV.

Shareholder approval to be sought by end of January

The scheme requires approval by both sets of shareholders and is expected to complete before the end of January 2011. An irrevocable commitment and letters of intent to vote in favour of proposals have been received from 42.8% of AMIC shareholders.

GLIF (£26m market cap) is an AIM traded fund which aims to provide stable and predictable dividend yield, currently 10%. It is invested primarily in the US senior secured loan market via a CLO within which the capital is retained until 2019. However, it has previously stated it will seek acquisitions to diversify the portfolio, providing they are enhancing to income and capital. It intends to finance the acquisition through a £12m loan facility.

AMIC is in realisation mode

AMIC (£12m market cap) has been in realisation mode since October 2006 and last returned capital in November 2008. In April AMIC sold its holding in City of London Investment Group for £3.6m, which represents 30% of net assets. AMIC has 27% of net assets invested in the International FX Concepts Loan Note which is due for repayment in May 2011, with the rest of the portfolio in unlisted investments.

Table 6. Sector Specialist News (22 October - 3 November 2010)

Fund	Ticker	Date	Headline	Theme
3i Infrastructure	3IN	05-Nov-10	Acquisition of Eversholt	Investments
Asset Management*	AMN	26-Oct-10	Greenwich Loan Income - Potential offer for Asset Management Inv Co	Corporate Action
GCP Infrastructure Investments	GCP	04-Nov-10	Master Fund closed to net new investment	Investments
Impax Asian Environmental	IAEM	25-Oct-10	Raises £131m via C Share	Fundraising
International Public Partnerships*	INPP	29-Oct-10	Preferred bidder on a further offshore transmission project	Investments

Source: Numis Securities Investment Companies Research

Emerging Markets

Aurora Russia* - Changes in manager incentives and Board composition

Continuation vote on 3 December

This AIM traded Russian private equity fund (£37m market cap) has proposed changes to the composition of the Board and to the structure of the Manager's incentivisation arrangements, subject to the passing of a continuation vote at the AGM on 3 December.

Managers incentivised to realise investments

The management fee will reduce from 2.0% to 1.5% p.a. of net assets and the performance fee will be based on realisations. The incentive fee will be 2.5% on disposals up to £45m (i.e. 40p per share), 7.5% on realisations between £45m-£99m (i.e. 40p-88p per share) and 20% on realisations over £99m. The fees will decline by 20% per annum from December 2011 for the 2.5% Tranche, whilst the 7.5% and 20% Tranches will decline by 20% p.a. from December 2012. The Directors consider that the combination of a reduced basic management fee and a more achievable performance fee will encourage the manager to make realisations and achieve better returns for shareholders.

The fund is managed by John McRoberts and James Cook, who both currently sit on the Board. However, John McRoberts intends to retire as a director in order to increase the independence of the Board. In addition, there are plans to appoint two new Independent Directors as soon as practicable.

A concentrated portfolio

Aurora Russia was launched in 2006 and has invested £73.9m in five companies valued at £92.2m at 31 March, an increase of 25% over cost. The investments are OSG (28.4% of net assets), a records management business, Unistream (24.7%) a money transfer company, Kreditmart/Flexinvest Bank (22.4%) a provider of retail financial services, and Superstroy (17.7%) a DIY retailer. Three out of five of these companies are leaders in their markets and the managers believe that they are "well positioned to capitalise on future revival of the Russian economy". In December 2009 the fund raised £15m through a placing of 37.5m shares at 40p in order to increase its stake in OSG.

No new investment until discount is tighter than 20%

As part of the fund raising, the Board stated that it would return cash to shareholders as each of its portfolio companies are sold, with the distribution capped at 1.5x the total amount invested in that portfolio company plus a pro-rata allocation of costs to-date. This commitment to return capital on realisations will continue until the fund has returned a total of £105m to shareholders. Any proceeds in excess of the 1.5x cap or the £105m limit can be retained by the company for re-investment purposes. However, the Board has now indicated that additional investments will not be made unless the discount is less than 20% for a period of six months.

Figure 34. Aurora Russia – Price & NAV Returns



Source: Datastream, Numis Securities Investment Companies Research

Figure 35. Aurora Russia – Discount History



Source: Datastream, Numis Securities Investment Companies Research

Table 7. Emerging Markets Fund News (22 October - 3 November 2010)

Fund	Ticker	Date	Headline	Theme
Aurora Russia*	AURR	28-Oct-10	Proposed changes in manager incentive arrangements and Board composition	Fees
Fidelity China Special Situations	FCSS	02-Nov-10	Managing the premium	Premium control
Ishaan Real Estate	ISH	02-Nov-10	Increased lettings and development costs	Investments
JPMorgan Brazil*	JPB	04-Nov-10	Proposed further issues for up to 30% of share capital	Fundraising
JSM Indochina	JSM	25-Oct-10	Weak outlook for remaining asset sales	Investments
Pacific Alliance China Land	PACL	25-Oct-10	4.6% exit via tender	Tender Offer
VinaCapital Vietnam Opportunity	VOF	28-Oct-10	Regular tender, buybacks and possible migration of listing	Corporate Action
Vinaland	VNL	03-Nov-10	Partial sale of stake in Hanoi residential project	Investments
Vinaland	VNL	29-Oct-10	To distribute 50% of realisation proceeds	Corporate Action

Source: Numis Securities Investment Companies Research

Developed Equity Funds

Aurora IT – Board rejects shareholder proposals

Proposal to replace James Barstow on the Board

Despite having recently conducted a strategic review, the board of this UK Growth fund has received a request from certain shareholders containing proposals to: remove Mr James Barstow (the investment manager) as a director; appoint Brett Miller as a director; and consider a range of discount management measures (including liquidation). The directors have considered these requests and concluded that they do not believe the proposals are in the interest of all shareholders.

Board recently announced a number of measures

On 1 October the Board announced the results of its strategic review including a number of measures to tackle the discount at which the shares have traded (currently 8%). A continuation vote will be held more frequently, on a three year rather than a five yearly basis. In addition, the continuation vote due at the AGM in mid-2012 will be brought forward to the AGM in 2011. Furthermore, if the shares trade at a discount of more than 10% in the 6 months to the date that the annual report is signed off, the company will hold a tender offer for 10% of the share capital at a discount of 9%. The board do not believe a new review would serve the interest of shareholders.

The board recently appointed Richard Martin as a director and feel that there are enough directors for a small trust, while noting that if shareholders vote to wind-up the company at the continuation vote in 2011 then *"Mr Miller's skills and experience may be valuable"*. James Barstow was recently re-appointed by shareholders at the AGM, although this was by the narrow margin of 56.4% of votes in favour.

The fund is managed through a high conviction, concentrated portfolio focused on companies with exposure to Emerging economies, particularly China, and natural resources. This has led to volatile long term performance, with the NAV up by 49.5% in 2010 year-to-date following on from returns of 52.5%, -43.8% and -14.0% in the preceding three years.

Midas IM holds substantial stake

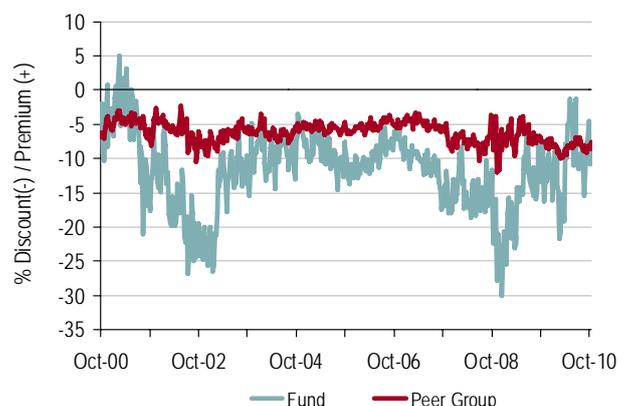
These shareholder requests confirm our view that the fund is vulnerable to corporate action, especially if performance deteriorates. Midas IM is the largest shareholder, with a 29.7% stake, which manages Manchester & London IT (£84m market cap), another UK Growth fund managed with a high conviction portfolio. Manchester & London IT merged with Directors Dealing/Stakeholders' Momentum IT in Q1 this year after the group had built a 46% stake.

Figure 36. Aurora IT – NAV Relative Performance



Source: Datastream, Numis Securities Investment Companies Research

Figure 37. Aurora IT – Discount History



Source: Datastream, Numis Securities Investment Companies Research

Split Capital Funds

Jupiter Dividend & Growth – 56% of ZDPs elect for cash option

Shareholders have approved the company's reconstruction proposals to extend the life for a further seven years to November 2017. The 91.675m Ordinary Income shares will continue in their present form, whilst the ZDP shareholders made elections as follows:

- 32.319m (35.3%): Continuation with their existing ZDPs with a final entitlement of 150p on 30/11/2017 (the default option);
- 8.054 (8.8%): Continuation into a new Common Share, equivalent to an ordinary share in a conventional trust, with full rights to dividends and any capital returns (akin to a debt for equity swap);
- 51.302m (56.0%): Cash at 90p on 30/11/2010.

Common shares are a separate, ungeared share class

If more than 75% of ZDPs had elected for cash then the company would have been placed into liquidation. However, the size of the ZDP cash election means that the on-going vehicle will have assets of just £40.4m. The new Common shares will effectively be a separate share class that is not geared by the continuing ZDPs nor degeared by the Ordinary Income shares in terms of capital or income. They will pay a quarterly dividend equivalent to the ungeared distributable portfolio yield on the company's investment portfolio. Their share of the assets, defined in the Revised Articles, will be determined based on assets as at 1 December 2010. Any revenues and expenses accrued will be allocated in proportion to this ratio. The portfolio is managed by Anthony Nutt and invests in a UK equity income portfolio.

Table 8. Developed Equity Fund News (22 October - 3 November 2010)

Fund	Ticker	Date	Headline	Theme
Alliance Trust*	ATST	05-Nov-10	Value Catalyst Fund – Continuation vote and stance on Alliance Trust	Corporate Action
Aurora	ARR	29-Oct-10	Board rejects shareholder proposals	Corporate Action
Gartmore Growth Opportunities	GGOR	27-Oct-10	Special Dividend of at least 27p	Dividend
Jupiter Dividend & Growth	JDT	01-Nov-10	56% of ZDPs elect for cash option	Corporate Action

Source: Numis Securities Investment Companies Research

News in Other Sectors

These stories can be accessed by clicking on the link below or by visiting our website.

Table 9. Fixed Income News (22 October - 3 November 2010)

Fund	Ticker	Date	Headline	Theme
New City High Yield	NCYF	03-Nov-10	Seeking to raise £15-25m	Fundraising

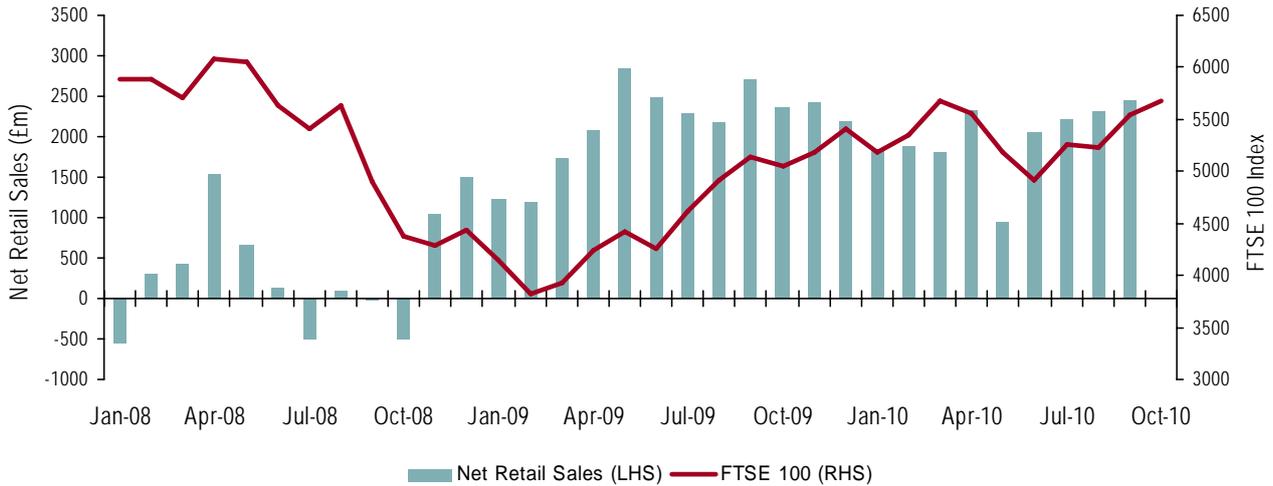
Source: Numis Securities Investment Companies Research

Net Retail Sales of Open-Ended Funds

Retail sales remain strong

Recent figures from the IMA showed that retail sales of UK-opened funds remained strong in September, with net inflows of £2.45bn. Net inflows have been above £2bn for 15 of the past 18 months, as strong markets have buoyed investor confidence (other than a temporary dip in May this year).

Figure 38. UK Net Retail Sales of Open-Ended Funds

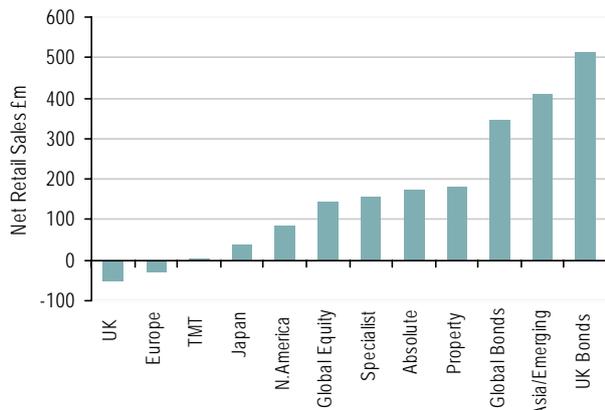


Source: IMA, Thomson Financial Datastream

Investors focus on Bonds and Asian/Emerging Market Equities

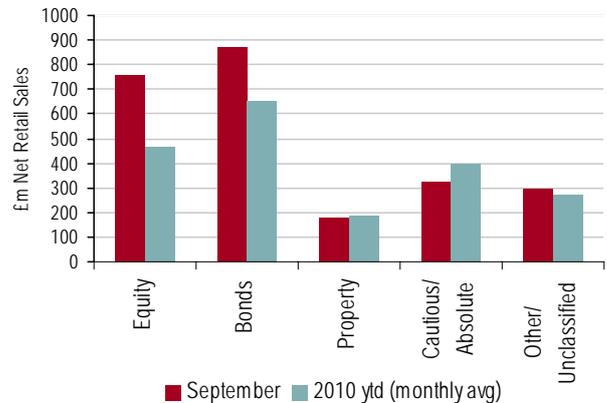
Appetite for Bond funds continues to be strong with aggregate net inflows of £871m in September and Q3 was the highest selling quarter on record for Global Bond Funds. Whilst Equity funds also saw significant inflows of £760m in September, well ahead of the average for the year. Asia Pacific Funds proved popular with inflows of £217m. This mirrors investor demand in for Listed Funds which has resulted in significant narrowing of discounts in recent weeks. There were also net inflows of £170m into other Global Emerging Market funds.

Figure 39. Net Retail Sales for Selected Sectors in Sep-10



Source: IMA

Figure 40. Net Retail Sales by Asset Class



Source: IMA

The following disclosures are addressed to US-based recipients.

Analyst Certification

The research analyst who prepared this research report was Charles Cade. The analyst hereby certifies that all of the views expressed herein accurately reflect the analyst's personal views about any and all of the subject securities and/or issuers at the date of original publication of this document. The research analyst who prepared this research report also certifies that no part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the analyst in the research report.

Important Disclosure

This research report has been prepared and approved by Numis Securities Limited ("Numis"), a securities dealer in the United Kingdom. Numis is not a registered broker-dealer in the United States and therefore is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided in the United States for distribution solely to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended. Any recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Numis Securities Inc. ("Numis Inc."). Numis Inc. may be contacted in writing or by phone: Numis Securities Inc., 275 Madison Avenue, 40th Floor, New York, NY 10016, U.S. phone (212) 277 7300. Numis Inc. is an affiliate of Numis. Under no circumstances should any recipient effect any transaction to buy or sell securities or related financial instruments through Numis.

Numis Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

Numis, Numis Inc. and/or their affiliates, directors, officers, and employees may have or have had interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the subject companies mentioned or referred to in this report.

The research analysts who prepared this research report receive compensation based upon various factors (such as the general perception of the analysts' ability and commitment to his/her analytical work) and upon the overall revenues including the investment banking revenues of Numis and/or one or more of its affiliates.

Asset Management, Aurora Russia, International Public Partnerships, JPMorgan Brazil, PSource Structured Debt, SVG Capital are or have been during the 12-month period preceding the date of this research report, clients of Numis.

Numis and/or one or more of its affiliates has received compensation for investment banking services from Asset Management, Aurora Russia, International Public Partnerships, JPMorgan Brazil, PSource Structured Debt, SVG Capital.

Numis and/or one or more of its affiliates has managed or co-managed a public offering for Aurora Russia and JPMorgan Brazil in the past twelve months.

Numis and/or one or more of its affiliates may receive or may seek to receive compensation for investment banking services from Asset Management, Aurora Russia, International Public Partnerships, JPMorgan Brazil, PSource Structured Debt, SVG Capital.

Market Making

As at the date of this research report, Numis and/or one or more of its affiliates is making a market in 3i Group, 3i Infrastructure, Fidelity China Special Situations, FRM Credit Alpha, GCP Infrastructure Investments, Graphite Enterprise, HgCapital Trust, Impax Asian Environmental, Ishaan Real Estate, JSM Indochina, JZ Capital Partners, London & Stamford Property, Max Property, NR Nordic & Russia Properties, Pacific Alliance China LandPantheon International, Tamar European Industrial, UK Commercial Property, VinaCapital Vietnam Opportunity, Vinaland.

Additional Disclosure

This Numis Securities Limited ("Numis") research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation, or particular needs of any specific recipient, even if sent only to a single recipient. This research report is offered solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell securities or related financial instruments, nor is it to be construed as a recommendation for Numis to effect any transaction to buy or sell securities or related financial instruments on behalf of any recipient. This report does not take into account the tax, or any other financial issues of investing in an Investment Company. You should seek independent professional advice on such matters. There is no express or implied understanding between Numis or Numis Securities Inc. ("Numis Inc.") and any recipient of this research report that Numis will receive any commission income in connection with this research report. The securities that may be described in this research report may not be eligible for sale in all jurisdictions or to certain categories of investors. This research report is based on information believed to be reliable, but it has not been independently verified and is not guaranteed as being accurate. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report.

Any statements or opinions expressed in this research report are subject to change without notice and Numis is not under any obligation to update or keep current the information contained herein. All statements and opinions expressed in this research report are made as of the date of this research report and are not held out as applicable thereafter. Neither Numis nor any of its directors, officers, employees, or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication; provided that this shall not exclude liability to the extent that this is impermissible under the law relating to UK financial services.

Numis may rely on information barriers, such as "Chinese Walls", to control the flow of information within the areas, units, divisions, groups, or affiliates of Numis.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the regulation of the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign corporations are typically not subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

Past performance is not an indication or guarantee of future performance and no representation or warranty, express or implied, is made by Numis with respect to future performance. The value of any investment or income from any securities or related financial instruments discussed in this research report is subject to volatility and can fall as well as rise. Investors may not get back the full amount they originally invested. The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from any securities or related financial instruments discussed in this research report.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of Numis and Numis accepts no liability whatsoever for the actions of third parties in this respect.

The following disclosures are addressed to non-US-based recipients.

Regulatory Notice & Disclaimer

Numis regards this document as a marketing communication. It has been approved under part IV article 19 of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "FPO") by Numis Securities Limited ("Numis") for communication in the United Kingdom only to investment professionals as that term is defined in article 19(5) of the FPO. Its contents are not directed at, may not be suitable for and should not be relied on by anyone who is not an investment professional including retail clients. Numis does not provide investment advisory services to retail clients. This marketing communication is not directed at you if Numis is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Numis is permitted to provide marketing material concerning investments to you under relevant legislation and regulations.

This marketing communication is not an offer or a solicitation to buy or sell any security. It does not constitute a personal recommendation and recipients must satisfy themselves that any dealing is appropriate in the light of their own understanding, appraisal of risk and reward, objectives, experience, and financial and operational resources. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Non independent research is not subject under the Markets in Financial Instruments Directive ("MiFID") to any prohibition on dealing ahead of the dissemination of investment research. However, Numis is required by the FSA to have policies in place to manage the conflicts of interest which may arise in its production, which include preventing dealing ahead.

The prices of the investments referred to in this marketing communication and the income from them may go down as well as up and investors may realise losses on them. Neither past performance nor forecasts are a reliable indicator of future results. Numis accepts no fiduciary duties to the reader of this marketing communication and in communicating it Numis is not acting in a fiduciary capacity. Neither Numis nor any of its directors, officers, employees or agents shall have any liability, howsoever arising, for any error, inaccuracy or incompleteness of fact or opinion in it or lack of care in its preparation or publication except where such is caused by its gross negligence, wilful default or fraud; nor shall it exclude or restrict any liability it has under the regulatory system to the extent that to do so is impermissible under the law relating to financial services.

All statements and opinions are made as of the date on the face of this document and are not held out as applicable thereafter. Marketing communications will carry the date of publication or, on a marketing communication printed overnight, the date on which it was sent to the printers. Where a price is quoted in a marketing communications it will generally, in the absence of contrary words, be the latest practicable price prior to

distribution or, in the case of a marketing communication printed overnight, the closing price at the close of business. Unless otherwise stated, prices in this marketing communication are derived from quotations on the London Stock Exchange.

A list of significant items which could create a conflict of interest and other material interests in relation to marketing communications, together with Numis's policy for managing such conflicts of interest, is set out on the Numis website (www.numiscorp.com/x/regulatory.html).

Numis or one or more of its associates or a director or an employee of Numis or of an associate may from time to time have a position, or may have undertaken or may undertake an own-account transaction, in a security referred to in this document or in a related security. Such a position or such a transaction may relate to the market making activities of Numis or to other activities of Numis.

Numis or one or more of its associates may from time to time have a broking, advisory or other relationship with a company which is the subject of or referred to in this marketing communication, including acting as that company's official or sponsoring broker and providing corporate finance or other financial services. It is the policy of Numis to seek to act as corporate adviser or broker to many of the companies which are covered by the Research Department. Accordingly companies covered in any marketing communication may be the subject of marketing initiatives by the Corporate Finance Department.

A company covered in this marketing communication may have paid for a researcher's reasonable expenses to visit their premises or offered modest hospitality or entertainment; further details are available on request.

Printed marketing communications will identify material sources; electronic marketing communications are normally based on company announcements made through the Regulatory Information Service. In those cases (but not otherwise) where the subject company has seen a draft of the marketing communication and has suggested factual amendments which are incorporated by the researcher, this will be noted on the marketing communication. This applies normally only to printed pieces.

In printed marketing communications the risk warnings (if any) attaching to a particular company will be set out; in electronic pieces there is a cross-reference to the archive of marketing communications on the Numis website where, under the appropriate company name, details of such matters can be viewed.

The archive of marketing communications (available to all clients who normally receive Numis marketing communications) is available on the Numis website (www.numiscorp.com/x/Mainresearch.html).

Numis accepts no responsibility whatever for any failure by a person resident outside the United Kingdom to observe the foregoing. No part of the content of any marketing communication may be copied, forwarded or duplicated in any form or by any means without the prior consent of Numis and Numis accepts no liability whatsoever for the actions of third parties in this respect.