

OCTOBER UPDATE

Stock Codes	Capital Shares	Income Shares	Warrants	ZDP Shares
Topic	EQPC	EQPI	EQPW	EQPZ
Bloomberg	EQPC LN	EQPI LN	EQPIW LN	EQPZ LN
Reuters	EQP.L	EQPi.L	EQP_t.L	EQPzo.L
ISIN	GB0030735483	GB0030735376	GB0030735269	GB00B1145147

31 October 07	Capital Shares	Income Shares	Warrants	ZDP Shares
Mid Price	116.00p	109.00p	N/A	109.50p
NAV	130.73p	102.97p	N/A	110.01p

Issue fifteen

October 2007

Fund Manager: EPIC Investment Partners Limited (EIP)



Fund Manager Profile
Jo Welman

Jo Welman graduated in economics from Exeter University in 1979. He joined Baring Brothers where he managed several large segregated UK and US public company pension funds and The Barings UK Smaller Companies Unit Trust. In 1989 he was recruited by Rea Brothers to become the managing director of the investment management subsidiary. He resigned as a director of Rea Brothers Group plc in August 1999 following the bank's take-over by Close Brothers and became Chairman of Brit Insurance Holdings PLC. He resigned from Brit in September 2002 and is managing director of EPIC Investment Partners Limited (formerly Equity Partnership Limited), the investment manager to the Company.

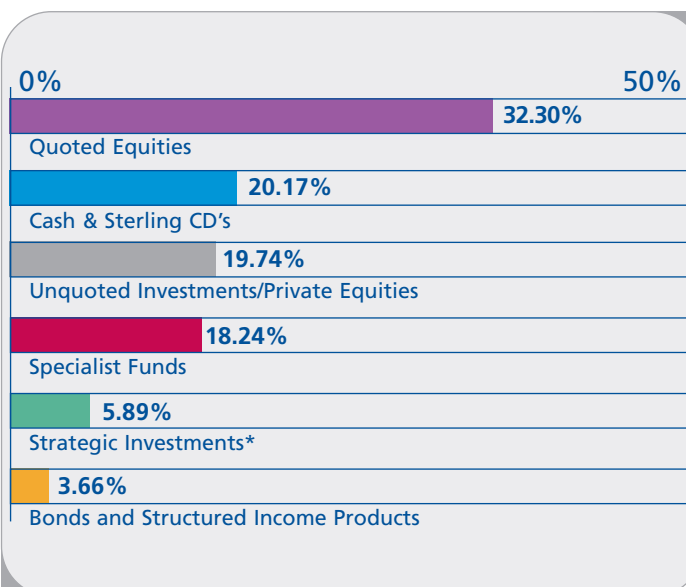
Investment Objective

The Company can invest in quoted and unquoted equities, bonds and structured income products and investment funds to generate capital growth for capital shares and an initial 10% yield for income shares.

Benchmark

Capital Share NAV: Libor + 3% per annum
Income Shares: Entitled to 10% per annum with annual RPI increases (capped at 5% per annum)

Asset Allocation as at 31 October 2007



*Syndicate Asset Management PLC, Strand Partners Limited,
Note: figures do not include the exposure to EPIC Securities PLC

Corporate Details

Launch Date:	17 August 2001
Launch Assets:	£67.63m (net of expenses)
Current Assets:	£94.5m
Capital Structure:	Capital Shares: 40,304,312 Income Shares: 20,736,333 ZDP Shares: 20,000,000
ZDP Shares:	Redemption Price: 139.3p due 29 July 2011 At time of issue this equated to a 6.5% GRY
Year End:	31 July
NAV:	Monthly
Directors:	Dr C McPhail, DC McCrickard, M Richardson, PP Scales
Winding up Provisions:	31 July 2011
Annual Management Fee:	1%
Brokers:	Landsbanki Securities (UK) Limited

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Manager's Commentary

Market Commentary

The last three months have been particularly eventful. Market volatility has continued as concerns relating to the US sub-prime housing market have impacted the US and European banking sectors. The consequent re-pricing of risk has led to a dramatic widening of credit bond spreads as well as a rise in short term money-market lending rates.

This in turn affected liquidity and central banks were forced to respond. In the US, where economic conditions continued to weaken, the Federal Reserve cut the discount rate by 0.50% which was followed by a 0.50% reduction in the Fed Funds rate from 5.25% to 4.75%. This helped US Treasury yields to fall by nearly 90 basis points. In the UK returns to **bonds** were similarly buoyed where, despite no signal from the MPC of any emergency easing, 2yr and 5yr Gilts yields fell by 60 basis points to 5.00% and 4.90%.

The perception that risks had increased also induced volatility in equity markets but confidence returned due to expectations that world interest rates had peaked. However, looking ahead the outlook is uncertain because whilst economic conditions around the world have not yet deteriorated significantly, risk premiums for both household and corporate borrowers in particular have increased, and economic activity may become more reliant on growth in incomes and profits, which in the current environment have the potential to disappoint. In addition growing concerns of contagion from the slowing US housing market have not eased and asset prices may have further to fall.

UK Equities

Notwithstanding the above the FTSE All Share Index rose by 5% during the period. Strong commodity prices and anticipation of interest rate cuts were responsible for the rise. EPIC's **quoted equity** portfolio benefited from bids for Amstrad and Revenue Assurance generating excellent returns. Life Insurer Prudential performed well in the quarter and was sold for a

good profit. New holdings were taken in metal processor Delta, engineering consultant Ricardo and retailer Woolworths.

Lupus Capital was a dull performer during the quarter as concerns about its 20% exposure to the US housing market and more generally to the US Dollar weighed on sentiment. Excellent interim figures published in late September failed to allay these fears.

Property consultant DTZ suffered in line with the UK property sector although recent discussions with the Company have confirmed that their varied business mix and global business model should protect them from any loss of UK transactional business.

Specialist Funds

Because the **Specialist Funds** portfolio has been increased over the past year and now represents 18.63% of EPIC's assets, following requests from shareholders we are for the first time devoting a significant portion of this quarterly newsletter to this segment of the portfolio. The portfolio is targeted at diversifying assets to achieve non-correlated returns in excess of the Company's Libor + 3% per annum performance benchmark. The bulk of the portfolio is invested in sterling assets which represent 8.49% of the total Fund; followed by Euro investments representing 5.25% and USD investments which total 4.88% of the Fund. The Dollar exposure is currently hedged back into Sterling. The Euro exposure is largely hedged but we are likely to fully hedge this exposure if the Euro continues to strengthen.

Largest Investments

	% of total investments
Palatinat School Holdings	4.51%
Lupus Capital Plc	4.48%
Diploma Plc	4.17%
Nexus Industries Limited	3.87%
Alpha Real Estate GMBH 8% 11 February 2010	3.70%
Alliance & Leicester 6.55 29 November 2007	3.22%
Invensys Plc	2.93%
Jupiter Hyde Park Hedge Fund Limited	2.92%
Delta Plc	2.73%
EPIC 6% Loan Stock	2.66%
Pinnacle-psg Limited	2.55%
Off Market Properties Club Ltd	2.44%
Aurum Mining Plc	2.40%
DTZ Holdings Plc	2.35%
AHG Trading Genussscheine	2.22%
Total of 15 largest investments	47.13%
Other investments	49.35%
BGI Sterling Liquidity First Fund - Institutional	3.52%
Total investments	100.00%

Market Data

	74.5 months since launch
Capital Shares	17.17%
FTSE All Share Index	33.33%
NAV	36.12%
Benchmark	58.70%

Manager's Commentary (cont.)

The largest Specialist Funds holdings are Jupiter Hyde Park Hedge Fund Ltd, Off Market Properties Club Ltd, AHG Trading GmbH, EEA Life Settlement Fund and European Equity Tranche Income Ltd. Each holding is commented upon in turn below.

Jupiter Hyde Park Hedge Fund Ltd (2.95%) is a European long/short equity fund with a bias towards large-cap stocks that can invest in any sector, although a significant proportion of the positions in the portfolio are concentrated in financials. The manager, Phillip Gibbs, has an excellent long-term track record, selecting shares with low valuations and earnings that are likely to surpass expectations. He targets a 15% annual return and also seeks to exploit market themes in addition to individual stock opportunities.

Off Market Properties Club Ltd (2.45%) is an offshore company investing in a portfolio of real estate assets in the Baltic states of Latvia, Lithuania and Estonia through British advisers based in Estonia. The Baltics' economies are some of the fastest growing in Europe and the property infrastructure is struggling to keep pace. This is providing development and "re-zoning" opportunities in the major cities.

AHG Trading GmbH (2.23%) is a German tax transaction sponsored by Macquarie Bank. AHG Trading is an SPV with a life of one year which purchases shares cum-dividend. The shares are sold ex dividend, and the company reclaims the appropriate amount of withholding tax withheld. Once the tax has been reclaimed, the result will be a return on investment anticipated at 18% per annum net of tax. The activity exposes

the Fund to no market risk and has six months left to run.

European Equity Tranche Income Ltd (1.85%) is a fund established to invest in the equity tranche of high quality European residential mortgage backed securities ("RMBS"). The company is chaired by Robin Monroe-Davies, founder of IBCA, the Bank ratings agency (now part of Fitch), and a Director of HSBC. The shares are presently trading at 49p against an NAV of €0.98 (68p) after allowing for a write-down in their Italian portfolio following a legislative change in Italy relating to the maximum size of early repayment penalties. The Fund has a yield of over 11% at the current share price.

EET has no exposure to the US mortgage market or to sub prime markets generally. We have assessed both the credit investments of the Fund and the stability of its funding and found both to be in our opinion satisfactory. It has recently agreed an extension of its credit facilities with its principal banker, Citigroup, until December 2008 by which time it is looking to refinance in the debt markets. The company has advised that S&P recently reviewed 75% of its portfolio and determined that more than half could be financed by debt rated BBB or higher.

EEA Life Settlement Fund (1.79%) is a US Viatical Fund which purchases life insurance policies where the insured has an impaired life expectancy. Policyholders' surrender values on these policies do not compensate them fully for the true actuarial or financial value and since the late 1990's a secondary market has thrived. Life insurance policies, like other assets, can now be sold to generate cash

during a terminal or chronic illness or retirement. The investment objective of the Fund is to provide a minimum benchmark 8% annual net return to investors on a stable long-term basis, with the prospect of total target net returns of between 9% and 10% per annum. The Fund has had 21 consecutive "up" months and has consistently exceeded its target return.

The other holdings in order of size are:

Climate Exchange plc (1.42%). The company invests in climate exchanges in the US and Europe, the latter having handled a record number of contracts of EU carbon dioxide permits in September. Over the past year we have taken significant profits and have reduced our exposure to 90,000 shares (current price £14.50). **South African Property Opportunities plc (1.19%)** is a South African property fund whose strategy is to achieve capital growth from an opportunistic portfolio to take advantage of increasing real estate values. **King & Shaxson Premier Fund Ltd (1.09%)** is a hedge fund with an objective to produce consistent absolute returns through investing in UK equities and related instruments. This is a long/short equity play where we have backed the experience of a successful and experienced manager. **EPIC Reconstruction plc (1.00%)** procures asset-backed finance for distressed and previously insolvent businesses managed by Giles Brand who also manages the Fund's private equity investments. After some early problems this is now a value play with the potential, we believe, for good upside from core investments such as Past Times and Dolcis. **The Cayenne Trust plc (0.99%)** is the former "Invesco City and

Manager's Commentary (cont.)

Commercial Investment Trust", management of which was transferred to Cayenne Asset Management Limited in January 2006. TCT seeks to achieve consistent positive absolute total returns' by investing in investment trusts and other closed-end funds. TCT seeks to ensure preservation of capital and to minimise NAV volatility through the use of derivative style instruments and has an initial life of 5 years. **Clean Energy Brazil (0.74%)** is an investment exposed to a Brazilian Ethanol refinery. We have taken some profits via a sale of approximately 15% of the holding. **Limelight Private Capital plc (0.21%)**

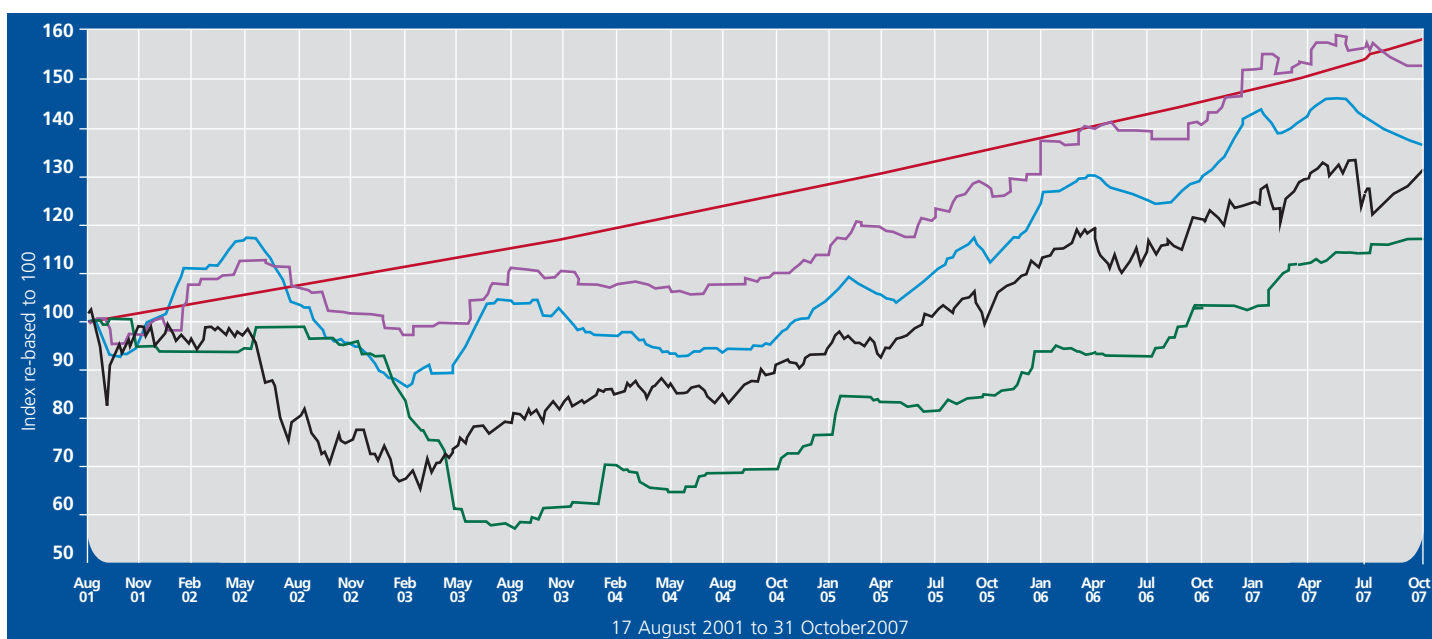
is a film financing scheme which is not dependent upon the overall return on film revenues but rather upon underlying tax breaks available to investors. **UK Film Partners LLC (0.14%)** is an LLP providing development funding (the acquisition of film rights, script production etc) in a joint venture with the UK's largest film star talent agency, ICM.

Private Equity

The **Private Equity** division has completed the acquisition of Driver Require, a niche recruitment business focussed on the provision of temporary specialist drivers. EPE aims to generate yield through

investment in mezzanine debt coupled with significant capital appreciation by investing in equity stakes in smaller private companies. The portfolio as a whole is performing strongly with some businesses showing signs of achieving their full potential and potentially moving towards exits. The Manager has a number of new companies under investigation, including two major bolt-on acquisitions for the Indicia Group, the database management business, and promising investment opportunities in the bespoke software and support services sectors.

Share Price and NAV Performance vs Benchmark (from 17 August 2001 to 31 October 2007 - re-based to 100)



Source: Bloomberg

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