

OCTOBER UPDATE

Stock Codes	Capital Shares	Income Shares	ZDP Shares
Topic	EQPC	EQPI	EQPZ
Bloomberg	EQPC LN	EQPI LN	EQPZ LN
Reuters	EQPL	EQPi.L	EQPZo.L
ISIN	GB0030735483	GB0030735376	GB00B114S147

31 October 2008	Capital Shares	Income Shares	ZDP Shares
Mid Price	69.00p	92.50p	104.00p
NAV	64.89p	99.76p	114.71p

Issue nineteen

October 2008

Fund Manager: EPIC Asset Management Limited (EPAM)



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 Chairman of EPIC Asset Management Limited, the investment manager to the Company.

Corporate Details

Launch Date:	17 August 2001
Launch Assets:	£67.63m (net of expenses)
Total Assets:	£70.96m
Capital Structure:	Capital Shares: 40,304,312 Income Shares: 20,736,333 ZDP Shares: 20,000,000
ZDP Shares:	Redemption Price: 139.3p due 31 July 2011 At time of issue this equated to a 6.5% GRY
Year End:	31 July
NAV:	Monthly
Directors:	Dr C McPhail, Chairman, DC McCrickard, M Richardson, PP Scales
Winding up Provisions:	31 July 2011
Annual Management Fee:	1%

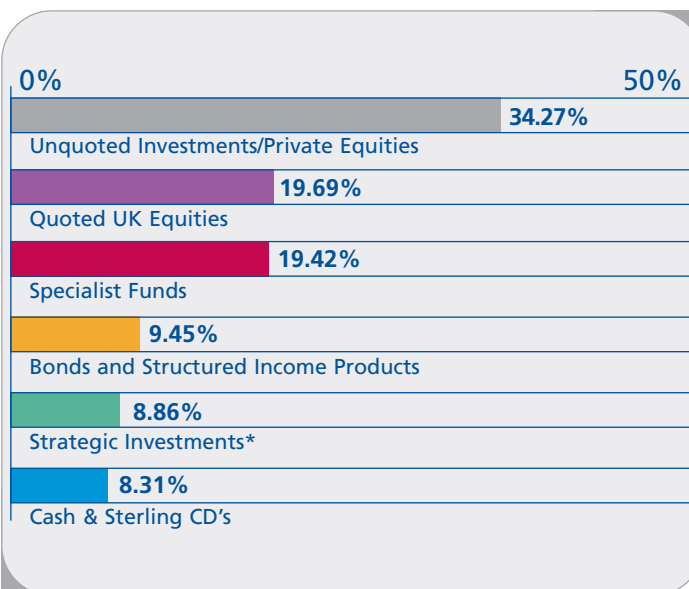
Investment Objective

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 2008



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

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Manager's Report

Market Commentary

September saw one of the most volatile and event filled months in financial market history, with a multitude of news releases regarding troubled financial institutions' inability to tap into the money markets to fund their short term obligations, concerns about banks' solvency with respect to rolling forward their debt capital maturing in the forthcoming months, and authorities actions to help repair the dislocations in the money markets.

UK economic data continued to worsen, with the news that 2nd quarter growth, after several revisions, had now reached nil, despite inventory accumulation in the corporate sector and improving net export performance. The outlook became arguably even bleaker looking ahead thanks to the ongoing deterioration in property prices and sudden worsening of labour market conditions with more than 30,000 jobs per month being lost - a rate consistent with recession. Although still several percentage points above its 2% target, inflation has become less of an issue given the likely easing of price pressures that is now anticipated by the Bank of England amid falling oil prices and the serious fall in economic growth in prospect.

However, economic data was overshadowed dramatically by financial market events, which saw equities plunge and a number of long-established financial institutions cease to exist in their previous form. Fear dominated the market in the second half of the month driving equities lower while safe haven assets such as short-dated government bonds rallied.

An unprecedented month of turmoil and distress in the financial services sector, saw Lehman Brothers file for protection under Chapter 11 of the US bankruptcy code, Bank of America acquire Merrill Lynch and the Federal Reserve acquire Fannie Mae, Freddie Mac and AIG. The US financial services regulator, the SEC, imposed a temporary ban on short-selling of financial stocks whilst the Treasury created a temporary program to protect the net asset value of money market mutual funds. Also

of note, the Federal Reserve approved the applications of both Goldman Sachs and Morgan Stanley to become bank holding companies, so protecting themselves from possible takeover or break-up, but also subjecting themselves to more regulation.

Looking forward, we expect extended market volatility in financial markets with the release of negative economic data going forward and continued dislocations in the money markets. With central bank easing in the forthcoming quarter we can expect to see short rallies in equity markets on the back of rate cuts. However, the longer term recessionary environment will provide a ceiling to any protracted movements.

Quoted Equity

The FTSE All Share Index fell by 20.5% during the period as worries about a world recession grew. The most important changes to the EPIC portfolio were the sale of Lloyd's TSB following the UK government's bank rescue package, the addition to the Aurum holding at below net cash, the addition to the Heywood Williams position after indications of bank support and the addition to the Matchtech holding after another excellent set of figures.

At 31 October, EPIC's five largest equity positions were Aurum (£0.9 million), Barclays (£1.8 million), Diploma (£2.5 million), Lupus Capital (£1 million) and Matchtech (£1.3 million). Their activities during the quarter are reviewed below.

Aurum returned from a five month suspension on AIM in the middle of August. The speculative action disputing the ownership of the Andash gold and copper project in Kyrgyzstan was

rejected but the project had been delayed substantially. This delay, and a worsening business climate in the small former Soviet Republic, encouraged the board to initiate a strategic review. If a suitable partner cannot be found the company could be wound up with 40 pence per share in cash and perhaps 10 pence per share in other assets returned to shareholders.

Barclay's reaction to the UK government's 8 October plans to rescue the banking sector was swift and entrepreneurial. They said ... "Barclays is well capitalised, profitable and has access to the liquidity required to support its business. Taking into account the new higher targets which the FSA has set for all UK banks, the board has determined that it will raise in excess of £6.5 million of Tier 1 Capital. This would result in a pro-forma Tier 1 Capital ratio as at 30 June 2008 of over 11%."

Crucially, these funds would not come from the UK government. It was Barclays' intention to issue preference shares and announce a £3 billion rights issue after the publication of the 2008 results. There would be no final dividend for 2008, saving £2 billion. The remaining £1.5 billion would come from internal savings.

The original measures would have left Barclays in a strong position to make good returns for shareholders when economic conditions improve without the possible complications that might arise from a government shareholding. Indeed, Barclays has already indicated that it will resume dividend payments in the second half of 2009.

Dramatically, on 31 October, Barclays announced that it had changed its plans due to market conditions. A total of

Manager's Commentary (cont.)

£7.3 billion was to be raised from Middle Eastern investors through a combination of high coupon debt with conversion rights and warrants attached. The average coupon is around 12% with dilution of at least 30%, possibly 50% eventually, so ordinary shareholders are having to pay a very full price for Barclays' independence.

Diploma issued a good third quarter trading statement on 5 August 2008. Group revenues were more than 20% ahead of last year for both the quarter and the year to date. Life Sciences, Seals and Controls all made progress and the group also benefited from currency moves. The Canadian dollar and the Euro strengthened by 7% and 14% respectively compared to the same period last year. The group's cash position remained strong with nearly £9 million of cash as at 31 July.

Lupus Capital produced a very creditable set of interim figures for the period ended 30 June 2008 on 30 September. Including a full six months contribution from the Laird acquisition, sales of £137 million (£79 million) generated pre-tax profits of £9.2 million (£7.6 million), giving earnings per share of 4.8 pence (4.3 pence). The interim dividend was unchanged at 2.06 pence per share. Debt stood at £112 million after £6 million of share buy-backs, loan repayments of £8.5 million and the final payment of £12.5 million for the Laird acquisition.

The Company said that the last four months of the year were going to be difficult and uncertain. However, this building supplies company does have some advantages. Nearly a quarter of operating profits come from the excellent Gall Thomson oil service division, and in the building products business 60% of sales are to the relatively stable refurbishment and remodelling market. Of the remaining 40% going to new build less than half is to the housing market.

Matchtech released excellent results for the year ended 31 July 2008 on 14 October. On revenue of £259 million (£203 million) pre-tax profit was £12.8 million (£10.5 million). Strong cash

flow left this specialist recruitment agency virtually debt free on a price earnings ratio of 5x with a yield of 7%. The new year had started well and the company believed that it could deliver another successful year. This optimism was reinforced by the intention to buy back up to 10% of the equity. Employment agencies are lowly rated by the stock market, but Matchtech has the great advantage of operating from a single site and order visibility through its exposure to large, long term projects such as the 2012 Olympics and the 2016 Aircraft Carrier project.

Private Equity

The Private Equity division has made one investment during the period, acquiring a further stake in Pinnacle-psg Limited of 13.8% for £2.85 million. The Manager is starting to see some very good opportunities due to the current lack of liquidity and would therefore expect to find opportunities over the next 6-12 months for bolt-on acquisitions to the existing portfolio.

EPIC Private Equity ("EPE") aims to generate a strong yield through investment in mezzanine debt coupled with significant capital appreciation by investing in equity stakes. EPE targets leveraged buyouts at EV/EBITDA valuations of less than 5.0x, backing experienced managers to leverage their positions within established, successful businesses and investment in growing smaller businesses in attractive niche markets with good prospects for growth. Investments take the form of significant minorities, generally no more than 29.9%.

The current Private Equity portfolio consists of £18.9 million of Mezzanine yielding between 9.0% and 12.0% (blended yield c.11.0%) interest, and £6.4 million of Equity and Shareholder Loans, invested in 10 companies. Private Equity equates to 35.6% of EPIC PLC's gross assets.

The Private Equity portfolio was valued at the end of July on a prudent basis, in line with the standard BVCA guidelines, and in the context of the forthcoming recession. Therefore, despite a number

of the businesses maturing during the year ending 31 July 2008, no write-ups were made to the investments, and two investments were written down. The trading of the businesses within the portfolio has generally been better than expected over the last three months, but the Manager remains cautious about the current downturn and therefore plans to retain a prudent approach to valuations, with no write-ups until the economic outlook is more certain.

It is worth noting that the investments within the portfolio are generally not leveraged to typical private equity levels. The majority of the investments in the portfolio, £14.3 million of the £25.3 million portfolio, was invested prior to 2006. The portfolio has therefore low levels of leverage due to debt paydown during the last three or more years, as well as those investments initially being made using low levels of leverage.

Only two investments, Palatinate and Nexus, have significant levels of leverage, and both have secured funding lines with their respective banks, are trading within their covenants, and are expected to continue to do so. Outside of these two investments, the average level of leverage is only c.0.7x EBITDA.

Palatinate Schools Limited (21% of total PE funds invested, 7.4% of fund) is a schools group in central London, in which EPIC invested £3.0 million in mezzanine and £1.25 million in equity and shareholder loans, to fund a management buy out in February 2005. EPIC holds 29.9% of the share capital. Sales have grown in excess of 10% per annum since 2004, and are currently on budget for £8 million in 2008. EBITDA margins run at 30% on average. The business continues to perform to expectations. Comparable companies would be Alpha, Cognitas and Gems.

Pinnacle-psg Limited (19% of total PE funds invested, 6.9% of fund) is a social housing management company, in which EPIC invested £3.0 million of shareholder loans and equity in December 2001, as replacement and working capital. £1.0 million of shareholder loans have been returned.

Manager's Commentary (cont.)

EPIC acquired a further 13.8% in September, and now holds 26.3% of the share capital. Sales achieved in the last 12 months were £55.0 million, sales CAGR ("Compound Annual Growth Rate") from 2003 to 2008 has been 28% and operating margin runs at around 5% on average. Comparable companies would be Inspace, Mouchel Parkman, Parkwood Holdings and Tribal.

Nexus Industries Limited (19% of total PE funds invested, 6.8% of fund) is a distributor of electrical and wiring accessories. EPIC backed members of the existing management team to buy the business in January 2005, investing £3.1 million in mezzanine and £1.2 million in equity and shareholder loans. Sales have been stable since 2004, budgeted sales for 2008 are c.£50.0 million and EBITDA margin runs at around 8% on average. Significant overhead reductions were made in the early part of this year in anticipation of the forthcoming downturn in demand, but so far, whilst there has been a reduction in demand, it has not been as severe as expected and the business is therefore performing ahead of expectations. Comparable companies would be Electrium Ltd, GET plc (recently delisted), Schneider (acquired GET plc) and Legrand SA.

Pharmacy2U Limited (4.5% of total PE funds invested, 1.6% of fund) is an internet based medicine retailer and deliverer of NHS prescriptions to the home using the government approved Electronic Transmission of Prescriptions protocol. EPIC invested £0.25 million of growth capital in Pharmacy2U in November 2002 and now holds 8.2% of the equity, having sold 20% of EPIC's stake in 2005 to EMIS to de-risk the initial position. Sales budget is £20 million for 2009, sales have grown by 37% per annum since 2002. The business is cash flow positive and profitable. Operating margin is not disclosed. No UK comparables but similar companies exist in the US, and Doc Morris in Europe.

Indicia Group (16% of total PE funds invested, 5.7% of fund) is a buy and

build strategy in the marketing services sector. EPIC originally invested £0.7 million in October 2006 to acquire the first business, Marketing Databasics, and has since acquired Results Europe in December 2006 and most recently, Entire, in March 2008. The company is currently seeking to acquire a substantial market research consultancy and expects to complete this transaction in H1 2009. Recent underperformance in the public markets is expected to provide significant opportunities for acquiring assets from the larger, listed, marketing services groups. The business is performing to budget. Comparables are marketing services businesses such as Cello Group, Chime, M&C Saatchi, Direct Marketing Group and Media Square.

Ryness Electrical Supplies Limited (3.9% of total PE funds invested, 1.4% of fund) retails electrical goods via high street and wholesale and internet channels. EPIC originally invested £0.7 million to acquire the company. Sales mix strategy has shifted towards wholesale (c.50% of sales) with the acquisition in August 2008 of Lama Electrical Limited, a wholesaler with two outlets in West London. The acquisition was funded with £0.4 million bank debt and a further £0.1 million from EPIC, bringing total funds invested to £0.9 million including rolled-up interest. In September the company acquired a further wholesale outlet funded via cash flow. The business is performing ahead of budget despite challenging retail conditions, and is expected to achieve c.£11.0 million sales to June 2009. Comparable companies are Maplin, Robert Dyas, and Edmundson.

Other investments (15% of total PE funds invested, 5.5% of fund) are **Bighead Bonding**, a small precision engineering business, **Evolving Media**, a digital media agency, and **Driver Require**, a temporary driver recruitment business.

Specialist Funds (over 0.5% gross assets)

The **Specialist Funds** portfolio is targeted at diversifying assets to achieve non-correlated returns in excess of the Company's Libor + 3% per annum

performance benchmark.

Jupiter Hyde Park Hedge Fund Limited (\$6.4m) is an open-ended limited liability company incorporated in Bermuda. The fund is run by Philip Gibbs and is mandated to invest in a wide range of international investments but his area of specialisation has been in the financial sectors. The Fund outperformed both markets and its peers strongly until July 2008 whereupon much of the out-performance was diluted during a particularly difficult month for equity markets and financials in particular. However, over the past quarterly, partly courtesy of a strong US Dollar, the Fund has provided the most significant positive contribution to EPIC's overall fund performance. Although volatility has picked up significantly over the past year, the fund enjoyed a marked long-term out-performance and has consistently shown a low level of correlation with equity markets in general.

CCFM Bristol & Stone Baltic Property Limited (€4.0m) is incorporated in the Isle of Man and registered as an Exempt International Scheme, focused on property investment in the Baltic States of Estonia, Latvia and Lithuania. The Company's British property advisers are based in Tallinn and have considerable experience of property development, investment and design in the region. In 2004 the Baltic States joined both the EU and NATO and have formed the fastest growing economic region in Europe for some years, continuing to enjoy high single digit growth through 2006 and 2007. The portfolio has been secured at attractive levels through the availability of "off-market" opportunities at prices that offered some insulation against the inevitable slowing of economic growth in the region following the financial crisis affecting the region's neighbours and trading partners.

EEA Life Settlement Fund (\$3.7m) is a Guernsey domiciled. Regulated Class B Fund listed on the Channel Island Stock Exchange and its objectives are to purchase, hold and manage a portfolio of US life settlements, provide a minimum benchmark return of 8% per

Manager's Commentary (cont.)

annum and generate a consistent total net return of between 9% and 10% per annum. The Fund provides an opportunity to invest in an asset class that is wholly uncorrelated with traditional investments and continues to achieve consistent and stable returns. The Fund has now enjoyed 33 consecutive months of positive price movements

CCD Leisure Investments (\$3m) has been set up to invest in prestige holiday developments in emerging destinations. The first investment has been into the popular emerging tourist destination of Grenada which is located south of the usual hurricane path and whose tourist industry remains relatively undeveloped. The land for the project has been bought cheaply and potential returns therefore remain high. A small number of major players, such as Four Seasons Hotel Resorts, have highlighted the Island as an attractive emerging destination with direct flights from London and Frankfurt. Properties are priced at a fraction of its better known competitors in the Caribbean and the Island has strong potential for boutique and eco-sensitive development. ERA's and CBRE's research and analysis suggests significant price uplifts can be achieved.

King & Shaxson (£1.1m) continued to outperform the general market. The current stance is a weighting towards large international companies rather than UK domestics. The Fund's good performance is attracting attention as evidenced by no redemptions and growing assets under management.

EPE Special Opportunities plc (£1.6m) is a closed-end Fund listed on AIM, focused on the control and ownership of distressed assets. The advisers believe that there remains potential to create value within the distressed investment market place and that the economic cycle will provide a wide range of investment opportunities. The Fund's largest investment is in Past Times, a niche retailer of historically

inspired jewellery, gifts, books and house-ware which was acquired at the end of December 2005. Past times has undergone a major restructuring process with a number of stores and the head office cost base reduced and the product range improved. The business is now benefiting and because of its market focus its performance is expected to hold up relatively well in a difficult retail environment.

The Fund has smaller investments in Kemutec, manufacturer of mixing and sifting equipment for the chemicals, pharmaceutical and food industries, Autocue, a manufacturer of prompting equipment for the media industry, and Morada Home Limited, focusing on contracts with the Ministry of Defence supply curtains and blinds for living accommodation.

Avarae Global Coins plc (£0.8m) is an AIM listed specialist investment company which is in the process of purchasing an impressive portfolio of high quality rare coins which will be held for the long term. The Company will however take advantage of short-term trading opportunities as the market for rare coins continues to grow. The shares have been purchased at a price which the Managers believe to be at a significant discount to the underlying value of assets which are generating growing interest among investors globally as an alternative asset class.

Rasmala MENA Equity Opportunity Fund (\$0.6m) utilises a dynamic multi-manager, multi-strategy and multi-currency approach to invest in Middle East and North African equity markets. Despite a strong reporting season from leading companies in the region, the Middle Eastern markets have now fallen back from their peaks although the Fund has continued to outperform underlying indices. We believe that these falls may have been over done given that the bank and financial system in the region is relatively sheltered from the worst

problems being suffered elsewhere. The Fund has recently reduced its exposure to the UAE markets and increased the allocation to Saudi Arabia. While it is unrealistic to expect the MENA region to be unaffected by the global financial shocks, we would expect the region to escape the worst and to outperform major developed economies.

Strategic Investments

Despite posting satisfactory results for the year 31 March 2008, shares in **Syndicate Asset Management PLC** suffered significant falls in October as a result of forced sales of stock by Icelandic shareholders. However, the majority of the Fund's exposure to the Company that acquired EPIC Investment Partners at the end of 2006 remains in 6% Loan Notes which have been unaffected by these problems.

Despite the unhelpful conditions for **Strand Partners** and an unreceptive market for new issues, Strand continues to enjoy a high level of general corporate finance enquiries. As a result they are expecting another satisfactory year.

Market Data

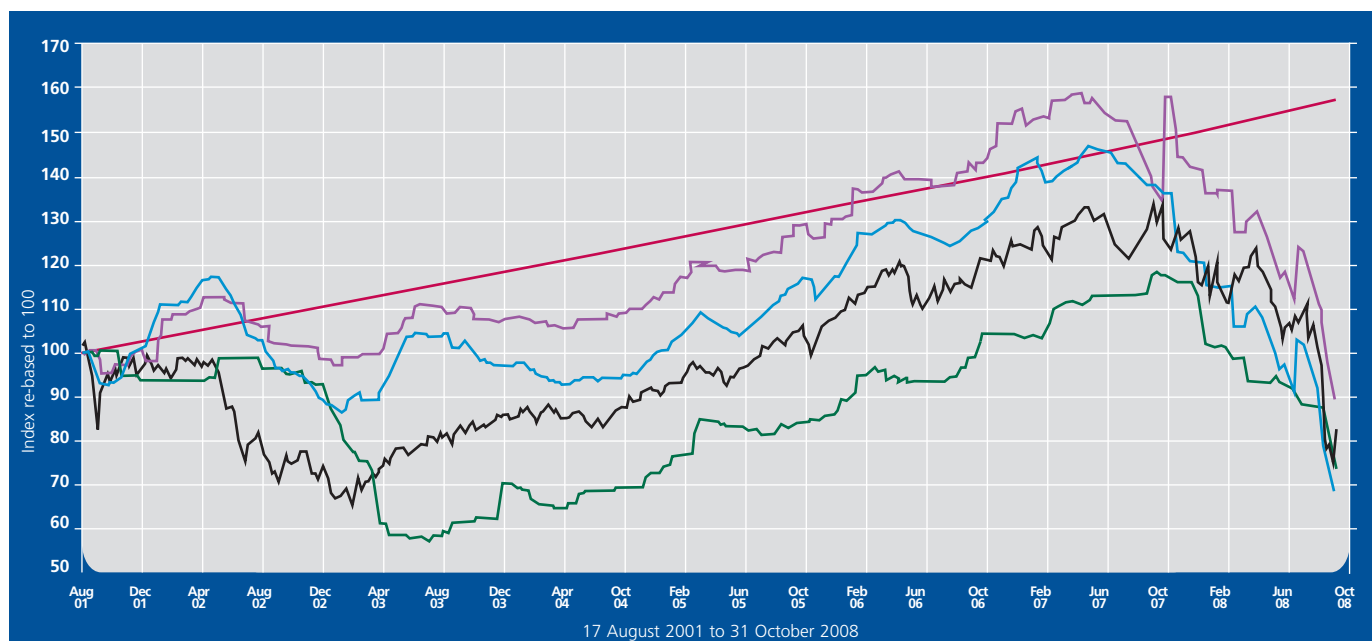
	86.5 months since launch
Capital Shares	-30.30%
FTSE All Share Index	15.71%
NAV	-32.43%
Benchmark	73.49%

- Capital Share Price
- Capital Share NAV
- Benchmark (Libor + 3%)
- FTSE All Share Index
- NAV (Cap+Inc) Divs Reinvested

Largest Investments

	Cost	Market Value	% of total investments
Pinnacle-psg Limited	4,920,717	4,921,008	7.23%
Nexus Industries Limited	7,398,925	4,748,446	6.98%
Palatinat Schools	4,250,007	4,250,007	6.24%
Alpha Real Estate GmbH	3,446,137	3,924,000	5.76%
Indicia Group	3,566,538	3,758,538	5.52%
Jupiter Hyde Park Hedge Fund	2,000,000	3,750,736	5.51%
CCFM Bristol & Stone Baltic Property Limited	2,298,290	2,589,840	3.80%
Syndicate Asset Management PLC 6% Loan Note	2,502,450	2,502,450	3.68%
Diploma	1,748,668	2,492,287	3.66%
EEA Life Settlement Fund	1,579,269	2,321,100	3.41%
Irish Nationwide	2,150,500	1,997,398	2.93%
CCD Leisure Investments	1,488,834	1,856,723	2.73%
Strand Partners Limited	2,512,500	1,804,424	2.65%
Barclays PLC	3,116,229	1,775,000	2.61%
Evolving Media	1,993,704	1,751,412	2.57%
Total of Largest 15 Holdings	44,972,768	44,443,369	65.29%
Other investments	40,935,120	17,971,697	26.40%
BGI Sterling Liquidity Fund and Cash deposits	5,669,979	5,656,783	8.31%
	91,577,867	68,071,850	100%

Share Price and NAV Performance vs Benchmark (from 17 August 2001 to 31 October 2008 - re-based to 100)



Source: Bloomberg

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