The Equity Partnership
Investment Company PLC

# JULY UPDATE

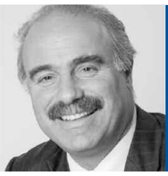
| Stock Codes | Capital Shares | Income Shares | ZDP Shares |
|---|---|---|---|
| Topic | EQPC | EQPI | EQPZ |
| Bloomberg | EQPC LN | EQPI LN | EQPZ LN |
| Reuters | EQP.L | EQPi.L | EQPZo.L |
| ISIN | GB0030735483 | GB0030735376 | GB00B114S147 |

| 31 July 2009 | Capital Shares | Income Shares | ZDP Shares |
|---|---|---|---|
| Mid Price | 28.50p | 81.00p | 122.50p |
| NAV | 51.04p | 99.21p | 121.38p |

Issue twenty-three

July 2009

## 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 their 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: | £66.84m | |
| 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% | |
| Brokers: | Numis Securities Limited | |

## Investment Objective

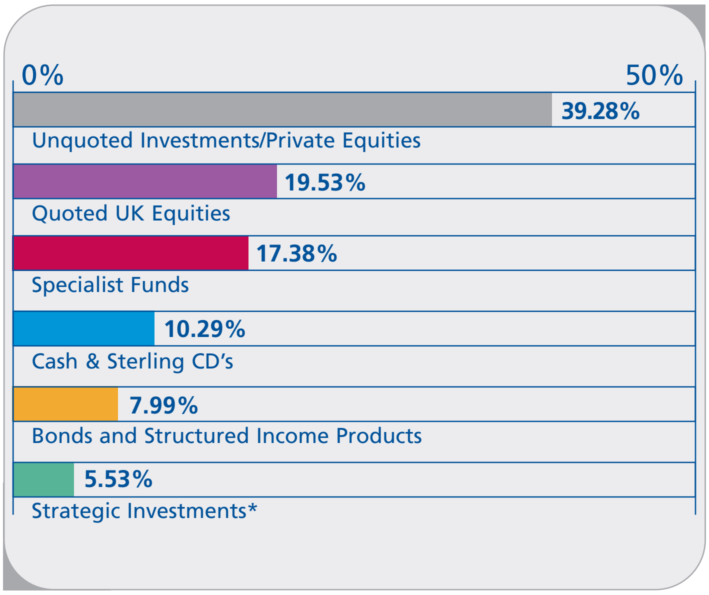
The Company can invest in quoted and unquoted equities, bonds and structured income products and investment funds to generate capital growth for capital shares and an initial 10% yield for income shares.

## 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 July 2009




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

## Contact

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# Manager's Report

## Market Commentary

There was evidence of an improvement in confidence, backed by rallying equities, suggestions of a recovery in the property market, and improvements in disposable income net of energy and mortgage costs during the start of the period. These latter two elements of expenditure are both continuing to register significant falls, even those that relate to oil because, despite the latter's resurgence, it remains at below half of the record level seen last summer, and the falls are being passed on to households with a lag.

Improved discretionary income, which our estimates indicate has grown at a rate sufficiently in excess of the rate of job losses, has undoubtedly been partly responsible for the improvement in mood, although much of it is likely to be saved rather than spent, and the factors underpinning it are far from permanent. The business sector has likewise seen many sentiment measures pick up from lows, but investment remains weak due to excess capacity.

There continued to be a dichotomy in the UK, with real economic data continuing to deteriorate while measures of confidence and financial market conditions have improved for several months consecutively. The BoE kept rates on hold and reiterated its belief in the quantitative easing program and being able to continue to set policy within an environment of benign inflation dynamics. Meanwhile, improvements in risk appetite continued to dominate markets, rather than uncertainty over central bank activity or government issuance, although the latter remained a concern. Real GDP growth for the second quarter for the UK was released towards the end of the period at -0.8%, more than twice the fall economists had forecast as the slump in construction, and business services kept Britain mired in recession. Any extension of the Bank of England's 'Quantitative Easing' programme, which is approaching the limit of its original scope, will require new authorisation. With some signs of stabilisation in the economy the MPC may adopt a 'wait and see' approach. The real economy, industrial production, manufacturing and investment remain weak, but the housing market looking is more positive. Stabilisation of house prices and improving survey data on business and consumer confidence all underpin the MPC's decision to delay any increase in Quantitative Easing bond purchases.

In the US, tentative signs of a reduction in risk aversion together with a resurgence in oil prices, caused the dollar to fall during the start of the period, as growing market sentiment concerning the recovery in the global economy sent the dollar to lows of 1.62 vs sterling and 1.42 vs the Euro. Several leading indicators in May began to show a deceleration in contraction of the US economy. Renewed volatility saw the S&P500 rise to a nine month high of 929, but pared its gains with the release of weaker than expected retail sales and employment figures. FOMC members stated that rates are set to remain low for a long time, suggesting that the target range of 0.00%-0.25% is likely to remain in place until the end of the year.

As in the UK, improving sentiment indicators (both manufacturing and service surveys increased with some survey components moving into expansionary territory) contrasted with feeble official economic data. Weak hiring and negligible wage growth is likely to continue pushing the savings ratio higher and keeping consumption muted. Furthermore, while some nonfarm payrolls numbers surprised the market on the upside, the actual level of jobless claims remains high and continuing unemployment claims are still rising, and it is highly likely that unemployment will reach 10% by the end of the summer. With earlier aggressive cuts in production having taken inventories to record lows, the negative impact of inventory reduction on GDP is likely to lessen. This means though, that if consumption does turn around this will feed through to both production and possibly employment fairly quickly, as inventories will struggle to meet any uptick in demand.

Signs of the monetary and fiscal stimuli feeding their way through the real economy towards the end of the period, were reinforced with encouraging Q2 real GDP figure at -1.0%, better than the expected figure of -1.5%, and compared with the Q1 release of -6.4%. Weakness in domestic demand was offset by improvements in net exports and higher government spending. As economic recovery gradually takes hold the Fed will seek to make an orderly exit from Quantitative Easing and the current, exceptional, policy schemes.

The ECB left its Repo rate on hold through the period, having cut to 1% in April. Non-standard methods of support for the market are now in place and the central bank considers these to have met with some success. Official economic data remained very weak while surveys provided indications of improved sentiment, with certain lead indicators suggesting that business investment is likely to revive around the end of the year. Although for a long period, export performance appeared surprisingly resilient against a rising Euro, recent months have seen exports perform very poorly, to the extent that they have contracted more even than the very strong Euro would normally indicate. Meanwhile, unemployment continued to rise, but households, whose excesses were less in Europe than elsewhere, appear to face a smaller retrenchment in the face of rising joblessness. Whilst the dissipation of inflationary pressure has enabled the ECB to enact a considerable, if belated, easing of monetary policy in recent months, government policy is not very fiscally stimulative, and this combination of factors is quite likely to drive continued economic underperformance by the Eurozone against its peers.

Further improvements in risk appetite, which boosted equities and corporate debt, left most money market measures approximately unchanged at near record lows in yield. The Sterling government bond market had given back some of the safe haven gains it enjoyed when fear was the dominant emotion in the market, but valuations continued to incorporate the support of quantitative easing and the absence of near-term inflation pressures. With quantitative easing keeping monetary policy looser than would be afforded through very low interest rates alone, any sustained recovery will first witness the withdrawal of these emergency measures before rates are tightened.

Gilts experienced a steepening sell-off during the period, with 2-year and 5-year yields rising by nearly 20bp and 60bp. Bank lending is still constrained but money market dislocations have improved. 3 month GBP LIBOR has declined by 55bp or 0.55 % in the three months. Corporate spreads have tightened substantially in the quarter. The US Treasury curve also steepened, with 5 year maturity bonds rising by 50bp (0.50%) and we started to witness the contraction in credit spreads, in particular of financial institutions. 2 year US yields rose by 20bp. The combination of a government bond sell-off and a rally in corporate spreads over recent months has been a little less marked in the Euro area. 2 year German government bonds dropped in yield by 8bp while the 5 year rose by 5bp in the period. Equities, namely the FTSE100 rose by 364 points from the end of April to reach the close of July at slightly over 4600.

### Quoted Equity

The FTSE All Share Index gained 8.3% during the period after several multinational companies reported better than expected earnings. Barclays was a particularly strong performer, allowing EPIC to profitably reduce its holding. Blood bank specialist Cryo-Save doubled in price during the quarter permitting a successful partial realisation. Both flag carrier British Airways and retailer Findel continued to trade poorly and were sold at a loss. Concerns over government spending plans continued to damage the share price of technical recruitment agency Matchtech. EPIC made a small addition to its holding. New holdings were telecoms giant Cable & Wireless, fund manager F&C Asset Management and North Sea gas producer Venture Production.

Lupus Capital negotiated new three year finance facilities but had to sacrifice the dividend and chairman, chief executive Greg Hutchings in the process. Kyrgyzstan gold miner Aurum granted an option to an Australian company over most of its dormant Andrash project which may result in Aurum having around 20 pence per share in cash against the current share price of 14 pence.

### Private Equity

The Private Equity division did not make any new investments during the period. The focus over the next 6-12 months will be confined to reviewing exit strategies and bolt-on acquisitions to the existing portfolio that will speed or enhance exit. The Manager has investigated a number of such investments during the period, and whilst those opportunities have so far been declined by the Manager, it is likely that such investments in the future will be earnings enhancing to the existing portfolio and help to achieve profitable exits.

The Investment Manager has historically had a conservative investment approach, with targeted EV/EBITDA valuations of less than 5.0x and low levels of leverage. This has helped significantly in weathering the recent economic storm. When valuing the portfolio last year at the year-end in July 2008, a prudent approach to valuation was taken due to the increasingly poor economic outlook. Whilst a number of write-ups could potentially have been justified at that time, the Manager took the view that the trading performance of the portfolio may decline and avoided such write-ups.

Such forecasts have been proven to be correct, with difficult trading performance across the portfolio. However, this was no more severe than expected, and with a few small exceptions, the portfolio appears to have performed robustly through the downturn. And whilst it is too early to be able to draw too many conclusions from recent trends, most businesses within the portfolio saw activity pick up during the second quarter of 2009 and the Manager is cautiously optimistic that the portfolio companies have now weathered the worst of the recession.

#### Manager and Investment Style

EPIC Private Equity ("EPE"), founded in 2001, has completed 42 transactions and deployed £89 million of capital in £270 million of Enterprise Value. 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 in the latter take the form of significant minorities, generally no more than 29.9%.

The focus of the next 6-12 months will be on bolt-on investments to the existing portfolio to enhance profitability and exit value.

The current Private Equity portfolio consists of £8.8 million of Mezzanine, yielding interest of between 9% and 12.0% (blended yield 11.0%), and

£18.1 million of Equity and Shareholder Loans, invested in 9 companies. Private Equity totals £30.0 million which equates to 40% of EPIC PLC's Gross Assets.

The businesses within the Private Equity portfolio are trading to expectations. The Private Equity portfolio was valued at the end of January 2009 on a prudent basis, in line with the standard BVCA guidelines, and in the context of the recession. The current performance of the portfolio is in line with those valuations, and whilst it would not be prudent to make any write-ups until the economic outlook has improved, no further write-downs are currently anticipated.

Palatinate Schools Limited (21% of total PE funds invested, 8.3% of fund) is a schools group in central London, in which EPIC invested £3.0 million in mezzanine and £1.3 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 were £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 (18% of total PE funds invested, 7.4% 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. EPIC acquired a further 13.8% in September 2008, and now holds 26.3% of the share capital. Sales achieved in the 12 months to 31 March 2009 were £54 million, sales CAGR ("Compound Annual Growth Rate") from 2003 to 2008 has been 22% and operating margin runs at around 5% on average. Comparable companies would be Inspace, Mouchel Parkman, Parkwood Holdings and Tribal.

Nexus Limited (19% of total PE funds invested, 7.5% 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, were £52 million in 2008 and EBITDA margin runs at around 8% on average. The business has had a strong first half, with the retail division significantly outperforming, and the wholesale channel slightly underperforming, leading to profit being strongly up compared to H1 2008 and ahead of Budget. Comparable companies would be Electrium Ltd, GET plc (delisted), Schneider (acquired GET plc) and Legrand SA.

Indicia Group (19% of total PE funds invested, 7.7% 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, with the investment in the buy-and-build strategy now totalling £4.4 million. Recent underperformance in the public markets is expected to provide significant opportunities for acquiring assets from the larger, listed, marketing services groups. Indicia is focussed on direct marketing which generally performs well in an economic downturn. Financial performance has been robust, particularly given the underperformance across many marketing services businesses. Comparables are marketing services businesses such as Targetbase, Cello Group, Chime, M&C Saatchi, Direct Marketing Group and Media Square.

Pharmacy2U Limited (4.2% of total PE funds invested, 1.7% 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 £16.6 million for the year ending 31 March 2010, up from £14.0 million in 2009. Sales have grown by 30% 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.

Ryness Electrical Supplies Limited (3.8% of total PE funds invested,1.5% of fund) supplies electrical goods via high street, 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 in line with budget despite the challenging retail conditions, and is expected to achieve £10.4 million sales to June 2009. Comparable companies are Maplin and Robert Dyas.

Other investments (15.5% of total PE funds invested, 6.2% of fund) are Bighead Bonding, a small precision engineering business, Evolving Media, a digital media agency, and Driver Require, a temporary driver recruitment business. They are all currently performing to expectations with trading conditions improving significantly in the last quarter.

## Specialist Funds

Key points in the quarter have been the further prudent write-down of real estate based investments such as CCFM Bristol & Stone, and adverse sterling translation of foreign assets value as sterling has strengthened, however, the apparent foreign exchange losses are offset by profits on our forward positions.

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. The largest investments by market value are commented upon below.

EEA Life Settlement Fund ($4.0 million) 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 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 continues to enjoy positive price movements with 44 months of continuous growth.

CCFM Bristol & Stone Baltic Property Limited (€1.4 million) 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 were the fastest growing economic region in Europe for some years. Whilst the portfolio was 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 we have marked down the value of our investment by ca.€2,500,000 (65%).

CCD Leisure Investments ($2.7 million) 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 a significant price uplift can be achieved even in the present financial climate. Notwithstanding this we have marked down our investment by $500,000 (15%) to be prudent.

We realised our investment in King & Shaxson during the quarter.

Jupiter Hyde Park Hedge Fund Limited (£1.0 million). Jupiter Hyde Park Hedge Fund Limited 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. 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.

Avarae Global Coins plc (£0.9 million) 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 shares were 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. Delivery of the shares has been delayed as they were caught in the freeze on the assets of Landsbanki in the UK we are presently seeking to resolve this issue and have instructed lawyers in this regard.

## Strategic Investments

Within the Strategic Investment Portfolio, Syndicate Asset Management has raised further equity funding during the quarter under review while Strand Partners has been reorganised and are hopeful that a high level of enquiries translates into another good P&L performance in the year to March 2010.

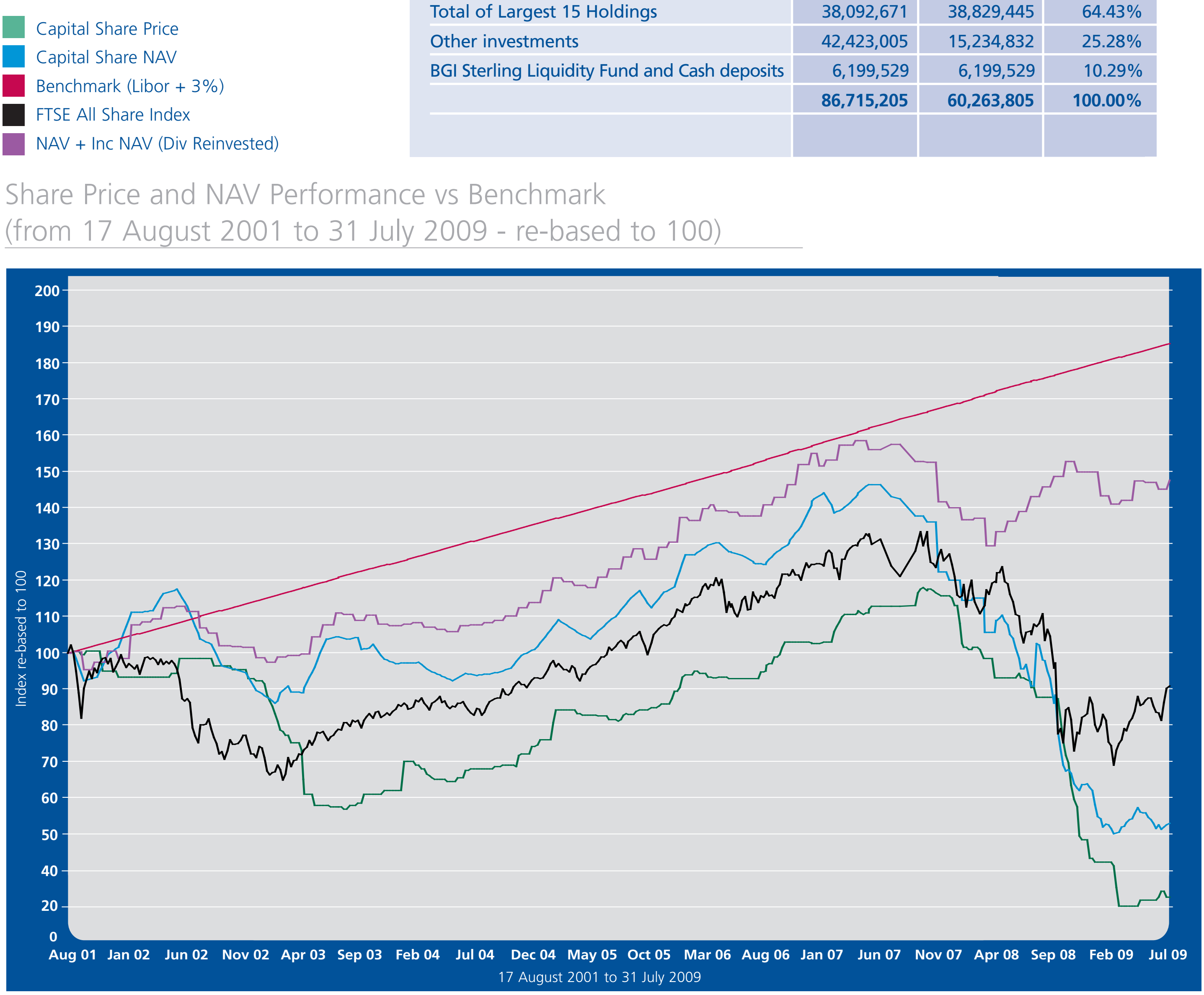
## Market Data

| | 95.5 months since launch |
|---|---|
| Capital Shares | -71.21% |
| FTSE All Share Index | -9.15% |
| NAV | -46.86% |
| Benchmark | 85.19% |

## Largest Investments

| Largest Investments as at 31 July 2009 | Cost | Market Value | % of total investments |
|---|---|---|---|
| Pinnacle Regeneration Group Ordinary Shares | 4,920,717 | 4,921,008 | 8.17% |
| Nexus Industries Limited £1m Convertible Loan Note | 7,398,925 | 4,748,446 | 7.88% |
| Indicia DDB | 4,236,538 | 4,428,538 | 7.35% |
| Alpha Real Estate GmBH 8% February 2010 | 3,446,137 | 4,263,520 | 7.07% |
| Palatinate Schools DDB | 4,250,007 | 4,250,007 | 7.05% |
| Diploma PLC | 1,771,901 | 2,530,630 | 4.20% |
| Syndicate Asset Management PLC Loan Note 6% | 2,502,450 | 2,502,450 | 4.15% |
| EEA Life Settlement Fund (USD) | 1,579,269 | 2,334,246 | 3.87% |
| Evolving Media DDB | 1,887,408 | 1,645,116 | 2.73% |
| CCD Leisure Investments Convertible Loan | 1,613,834 | 1,619,062 | 2.69% |
| Bighead Holdings Limited DDB | 1,414,276 | 1,414,276 | 2.35% |
| Pharmacy 2U Ordinary Shares | 96,342 | 1,140,245 | 1.89% |
| UK Film Partners LLC | 1,000,000 | 1,035,714 | 1.72% |
| Venture Production | 974,867 | 1,014,701 | 1.68% |
| Jupiter Hyde Park Hedge Fund Limited | 1,000,000 | 981,486 | 1.63% |
| **Total of Largest 15 Holdings** | **38,092,671** | **38,829,445** | **64.43%** |
| **Other investments** | **42,423,005** | **15,234,832** | **25.28%** |
| **BGI Sterling Liquidity Fund and Cash deposits** | **6,199,529** | **6,199,529** | **10.29%** |
| | **86,715,205** | **60,263,805** | **100.00%** |

## Share Price and NAV Performance vs Benchmark
(from 17 August 2001 to 31 July 2009 - re-based to 100)

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