

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 July 2008	Capital Shares	Income Shares	ZDP Shares
Mid Price	89.50p	102.75p	112.75p
NAV	94.73p	102.99p	112.71p

Issue eighteen

July 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 managing director of EPIC Investment Partners Limited, the investment manager to the Company.

## Corporate Details

<b>Launch Date:</b>	17 August 2001
<b>Launch Assets:</b>	£67.63m (net of expenses)
<b>Total Assets:</b>	£83.4m
<b>Capital Structure:</b>	<b>Capital Shares:</b> 40,304,312 <b>Income Shares:</b> 20,736,333 <b>ZDP Shares:</b> 20,000,000
<b>ZDP Shares:</b>	<b>Redemption Price:</b> 139.3p due 31 July 2011 At time of issue this equated to a 6.5% GRY
<b>Year End:</b>	31 July
<b>NAV:</b>	Monthly
<b>Directors:</b>	Dr C McPhail, Chairman, DC McCrickard, M Richardson, PP Scales
<b>Winding up Provisions:</b>	31 July 2011
<b>Annual Management Fee:</b>	1%
<b>Brokers:</b>	Landsbanki Securities (UK) Limited

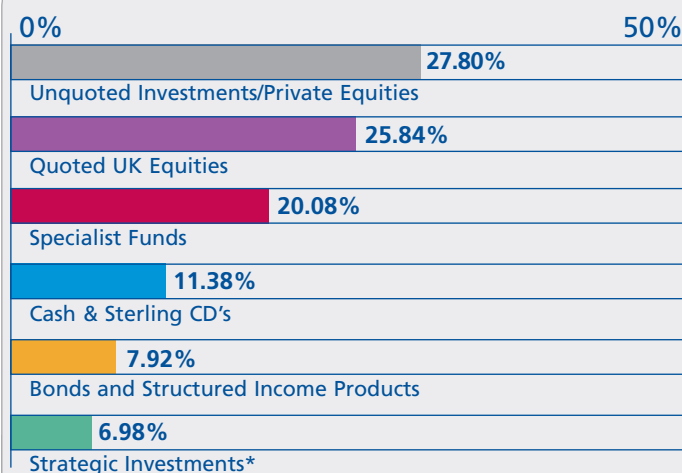
## Investment Objective

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 2008



\*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 Commentary

### Market Commentary

Escalating energy prices and stronger inflation concerns were at the forefront of the market's attention in this quarter, at a time when economic weakness should have forced central banks to ease monetary policy. The inability to raise rates due to the need to contain inflation expectations led central banks to resort to heightened rhetoric in attempts to manage these pressures. Stresses remain within the world's banking systems, evidenced by elevated money market rates relative to central bank rates, despite credit spreads tightening following highs at the time of the Bear Stearns crisis.

Weak equity and housing markets and high petrol prices compounded the perception of a crisis as indices of consumer confidence plummeted in the West. However, with the central banks' proactive attitude with respect to "bailing out" troubled institutions, default risk is being priced out of bond markets. With total bank losses approaching US\$450billion, the ability of financial institutions to replenish capital, either through sovereign wealth funds or domestic investors has been limited due to the ongoing market dislocations. In total US\$330billion of new capital has been raised against US\$450billion which has been wiped off company balance sheets. Following the capital deficiency issues of Government sponsored mortgage firms Fanny Mae and Freddie Mac, the Federal Government was forced to change the capital and investment requirements which helped to free up around \$360billion.

US Q2 GDP figures came in at 1.9%, below the average forecast for a 2.3% rise, but more importantly Q1 2008 growth was revised down slightly to 0.9% from 1%. And moreover, Q4 2007 GDP was slashed to negative 0.2% from positive 0.6%. The arrival of the Federal tax rebates in April was offset by higher gasoline prices and transportation costs. Very large budget deficits at the peak of the business cycle leave very little room for countercyclical fiscal stimulus to boost consumer spending and confidence in the face of a weak housing market and higher fuel and energy costs. This is particularly significant when the normal mechanisms

of monetary policy have ceased to function. In the UK the MPC was fearful that rising inflation became incorporated into wage settlements, but with economic weakness elsewhere and external cost-push pressures, all the MPC has been able to do is increase the rhetoric. In Europe, the ECB delivered on its threats of rising interest rates with a rate hike in July, raising the base rate to 4.25%, with real GDP growth picking up from 0.4% in Q4 2007 to 0.7% in Q1 2008. The economy appears, however, to have decelerated markedly since then. The Purchasing Manager's Report for June showed manufacturing in most Euro area countries either approaching or already falling into negative territory, whilst industrial production for the region contracted by 1.9% in May. The ECB remains beguiled by the significance it attaches to money supply growth whilst beset by externally led commodity cost push inflationary pressures. Despite these concerns, however, it has acted forcefully in providing liquidity to a beleaguered banking system.

Going forward, several issues remain. The sub-prime crisis created a crisis of liquidity and confidence. By addressing the problem of liquidity the crisis of confidence will gradually dissipate as acknowledged losses pass US\$400 billion. A "credit crunch" superimposed upon weak housing, high gasoline prices and six months of continuous job losses, totalling 470,000, make it difficult to envisage where an up-tick in consumer spending can come from barring further monetary or fiscal stimulus in the US. The issue is finely balanced but economic

weakness and the fragility of financial markets will likely prevent central banks from tightening monetary policy before the year end, despite periodic anti-inflation statements. In this environment, banks with a large retail deposit base, that would limit the dependability on the wholesale funding markets and credit growth, are favoured. The historically high yields that are still offered by the financial sector at a time when the bulk of the sub-prime and credit related issues are behind us, are offering attractive market returns. Money market debt beyond six months also looks attractive as money market dislocations have created step money market yield curves around the world.

### Quoted Equity

The FTSE All Share Index fell by 8% during the period with banks, builders and retailers bring particularly hard hit. When economic conditions improve banks will be at the heart of revival. For this reason EPIC PLC invested £7million in the financials stocks late in the quarter. Major new holdings were Barclays and Lloyds with smaller positions in BRIT Insurance Holdings PLC and Tullet Prebon. The purchases were funded by sales of Carclo, Cryo-Save, Delta, Invensys and Microgen.

### Specialist Funds

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 holdings are CCFM Bristol & Stone Baltic Property Ltd (€4.0million), a fund which

## Manager's Commentary (cont.)

invests in a portfolio of real estate assets in the Baltic states of Latvia, Lithuania and Estonia; [Jupiter Hyde Park Hedge Fund Ltd](#) (\$5.9million), a long/short equity fund which was performing particularly strongly until mid July but has subsequently given back most of its calendar year gains; [EEA Life Settlement Fund](#) (\$3.7million), a US Viatical Fund which purchases life insurance policies where the insured has an impaired life expectancy and which has now risen for 28 consecutive months. Our German tax transaction sponsored by Macquarie Bank, AHG Trading GmbH, concluded satisfactorily during the quarter but our other smaller fund positions have not escaped the effects of the recent market turbulence although we remain comfortable with the underlying assets.

### Private Equity

The Private Equity division has a strong pipeline of new deals, and has completed the acquisition of Entire, a direct marketing business as part of the Indicia buy and build strategy in the marketing services sector. An update on the existing portfolio is included separately in this Newsletter.

### Manager and Investment Style

EPIC Private Equity ("EPE"), founded in 2001, has completed over 42 transactions and deployed £80million of capital in £300million 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 take the form of significant minorities, generally no more than 29.9%. EPE has a healthy pipeline of deals, and aims to make a number of investments over the next 12 months,

taking advantage of the current market conditions. This will be both new opportunities and investments behind existing portfolio companies. The current Private Equity portfolio consists of £12.7million of Mezzanine yielding between 9% and 12.0% (blended yield 11.0%) interest, and £8.2million of Equity and Shareholder Loans, invested in 10 companies. Private Equity equates to 27.6% of EPIC PLC's gross assets.

Palatinate Schools Limited (23% of total PE funds invested, 6.3% of fund) is a schools group in central London, in which EPIC invested £3.0million in mezzanine and £1.25million 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 2008 budget is £8million. EBITDA margins run at 30% on average. Comparable companies would be Alpha, Cognitas and Gems.

Pinnacle-psg Limited (10.6% of total PE funds invested, 2.9% of fund) is a social housing management company, in which EPIC invested £3.0million of shareholder loans and equity in December 2001, as replacement and working capital. £1.0million of shareholder loans have been returned. EPIC holds 12.5% of the share capital. Sales achieved in the last 12 months were £55.0million, sales CAGR ("Compound Annual Growth Rate") from 2003 to 2008 has been 28% and operating margin runs at around 5% on average. A recent investment by Numis values the company at £17million, and comparable companies would be Inspace, Mouchel Parkman, Parkwood Holdings and Tribal.

Nexus Limited (21.3% of total PE funds invested, 5.9% 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 £3.1million in mezzanine and £1.2million in equity and shareholder loans. Sales have been stable since 2004, budgeted sales for 2008 are c.£50.0million and EBITDA

margin runs at around 8% on average. Comparable companies would be Electrium Ltd, GET plc (recently delisted), Schneider (acquired GET plc) and Legrand SA.

Pharmacy2U Limited (5.0% of total PE funds invested, 1.4% 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 £0.25million 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 £20million, 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 (17.5% of total PE funds invested, 4.8% of fund) is a buy and build strategy in the marketing services sector. EPIC originally invested £0.7million 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 Q4 2008. Run-rate sales are now £9.0million, with target operating margins of circa 15%. Comparables are marketing services businesses such as Cello Group, Chime, M&C Saatchi, Direct Marketing Group and Media Square.

Other investments (22.6% of total PE funds invested, 6.2% of fund) are Bighead Bonding, a small precision engineering business, Ryness Electrical, an electrical retailer, Evolving Media, a digital media agency, and Driver Require, a temporary driver recruitment business.

## Market Data

	83.5 months since launch
Capital Shares	-9.60%
FTSE All Share Index	6.15%
NAV	-1.36%
Benchmark	69.57%

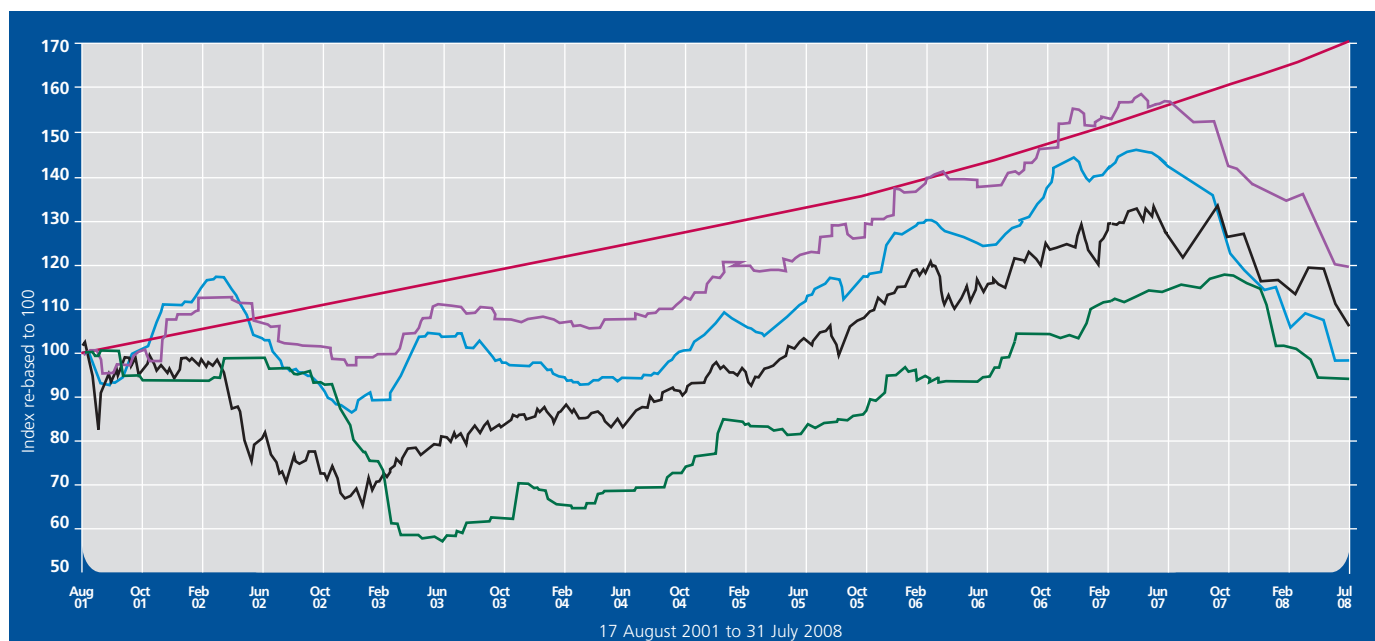
- Capital Share Price
- Capital Share NAV
- Benchmark (Libor + 3%)
- FTSE All Share Index
- NAV (Cap+Inc) Divs Reinvested

## Largest Investments

	% of total investments
Nexus Industries Limited	9.04%
Palatinate School Holdings Limited	5.93%
Alpha Real Estate GmbH	5.74%
Indicia Limited	5.25%
Barclays Plc	4.72%
CCFM Bristol & Stone Baltic Property Limited	4.35%
Diploma Plc	4.23%
Lloyds TSB Group	4.12%
Syndicate Asset Management - Loan Stock	3.62%
Pinnacle-psg Limited	3.35%
Irish Nationwide 4.75pct	2.76%
Strand Partners Limited	2.62%
EEA Life Settlements	2.51%
Evolving Media Limited	2.35%
Equity Special Situations Limited	2.19%
<b>Total of 15 largest investments</b>	<b>62.78%</b>
<b>BGI</b>	<b>6.07%</b>
<b>Total investments</b>	<b>100.00%</b>

## Share Price and NAV Performance vs Benchmark

(from 17 August 2001 to 31 July 2008 - re-based to 100)



Source: Bloomberg

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