



# 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 2006	Capital Shares	Income Shares	Warrants
Mid Price	102.00p	124.25p	N/A
NAV	125.03p	102.86p	N/A

Issue twelve

October 2006

## 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. He resigned as chairman of Brit Insurance Holdings PLC in September 2002 and is managing director of EPIC Investment Partners Limited (formerly Equity Partnership Limited), the investment manager to the Company.

## Corporate Details

Launch Date:	17 August 2001
Launch Assets:	£67.63m (net of expenses)
Current Assets:	£84.61m
Capital Structure:	Capital Shares: 34,561,666
	Income Shares: 20,736,333
	Warrants: 6,912,333
	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, DL Adamson, DC McCrickard, P Keltie, M Richardson, PP Scales
Winding up Provisions:	31 July 2011
Annual Management Fee:	1%
Brokers:	Teather & Greenwood

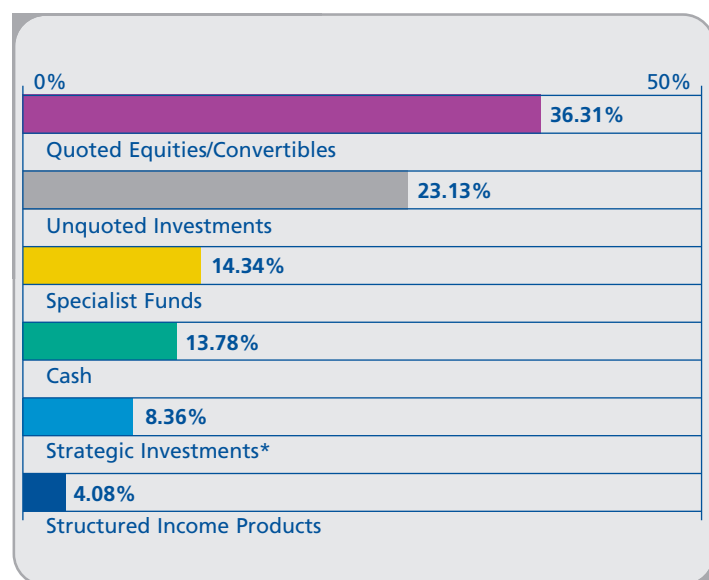
## Investment Objective

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 2006



\*EPIC Investment Partners Limited, Strand Partners Limited, EPIC Specialist Investments Limited  
Note: figures do not include the exposure to EPIC Securities PLC

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## Manager's Commentary

At the time of the last report, we had cited the risks for higher inflation in the UK. Over the period these were largely realised as the pricing components of the PMI surveys increased, indicating that the historical highs in world commodity prices could take the MPC's inflation projections to the height of their comfort zone.

With greater capacity pressures arising as a result of continued housing market buoyancy and a recovery in UK manufacturing, both interest rate expectations and bond yields moved higher and the MPC also raised the UK Base Rate at its August meeting.

Looking ahead, the economic fundamentals suggest that in the near term the Fund's current asset allocation remains appropriate. The decline in oil prices may keep headline inflation at bay but core inflationary pressures will remain if the prolonged period of above trend growth in the Eurozone and strong housing market activity places sufficient upward pressure on existing capacity constraints. As such, we cannot rule out the potential for further tightening from the MPC, which was substantiated at the time of writing with the additional 25 basis points increase in the UK Base to 5.00% at their November meeting.

Bond yields do not currently provide sufficient protection, although we await signs of a moderation in inflation risks that could provide an opportunity to introduce an exposure to sterling **fixed income** securities.

The FTSE All Share Index gained 4.5% during the period. Good company results and takeover activity continued to support the market. The optimism generated by these factors was tempered by cautionary comments about US economic growth and a diminished appetite for risk as investors considered the impact of higher interest rates on smaller companies. EPIC

reduced the total invested in **UK equities** by £1.4 million during the period. Strong share price moves allowed EPIC to take some profits in Hunting and UK Coal. Uniq pleased the market with news of disposals and 40% of the holding was sold. New positions were purchased in travel group Hogg Robinson, contract employment agency Matchtech and life insurer Prudential.

Over the past few months we have reinvested a proportion of the cash raised from equity sales into the **Specialist Funds** portfolio. Our core objective is to meet or exceed the Fund's benchmark return in a range of funds whose returns have relatively little correlation with equity markets. New additions include South African Property Opportunities PLC and Off Market Properties Club Limited which invest in development opportunities in the Baltic States.

The **Private Equity** division has reviewed a steady flow of deals over the past quarter. EPIC has completed the acquisition of database management business Marketing Databasics, with David Perkins, formerly CEO of Wegener DM, leading the management team.

Our **Strategic Investments** continue to make steady progress. Strand has had a good first half, benefiting from an active market for IPO's, and continues to increase its sources of business. 2006 has been a quiet year for new fund launches within EPIC Investment Partners but there is an interesting strong pipeline for 2007.

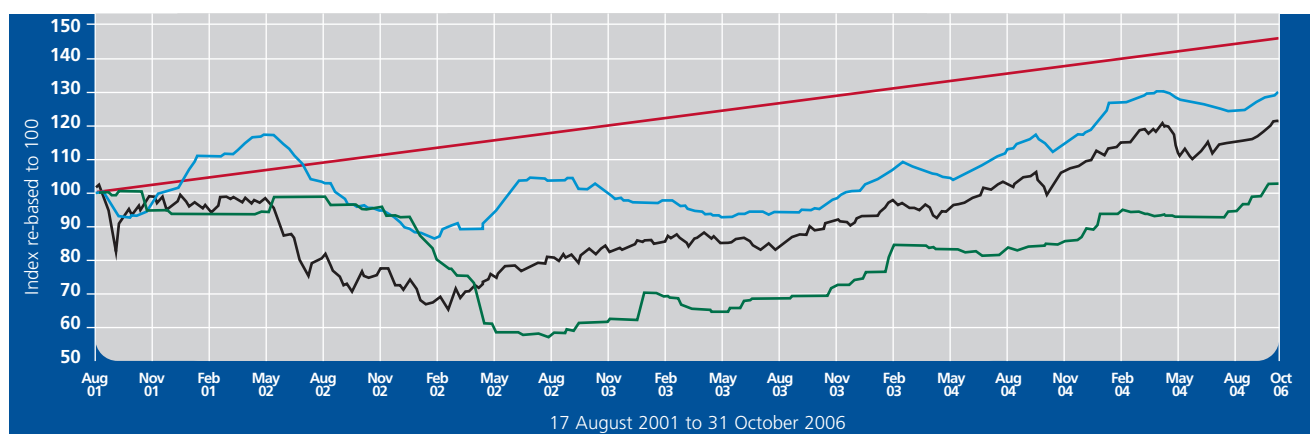
## Market Data

	62.5 months since launch
Capital Shares	3.03%
FTSE All Share Index	21.23%
NAV	30.19%
Benchmark	46.47%

## Largest Investments

	% of total investments
EPIC Investment Partners	7.02%
Palatinate Ltd DDB	5.97%
Diploma PLC	5.88%
Alpha Real Estate GmbH 8% 11/02/2010	4.70%
Nexus Industries Ltd DDB	4.39%
DTZ Holdings PLC	4.25%
Communitas DDB	3.98%
Jupiter Hyde Park Hedge Fund	3.72%
Lupus Capital PLC	3.54%
Pinnacle-psg Limited	3.37%
Heywood Williams Group PLC	3.02%
Hunting PLC	2.81%
Strand Partners Limited	2.53%
Despen Bayle	2.35%
Luminar PLC	2.21%
<b>Total of 15 largest investments</b>	<b>59.74%</b>

## Share Price and NAV Performance vs Benchmark (from 17 August 2001 to 31 October 2006 - re-based to 100)



Source: Bloomberg

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